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FEARLESS

ANNUAL REPORT 2021

zip



FY21 Scorecard

Zip is a global buy now pay later (BNPL) leader with a footprint across twelve markets.

In August 2021 Zip launched a unified global brand identity bringing together all its core markets under the Zip brand.

CANADA

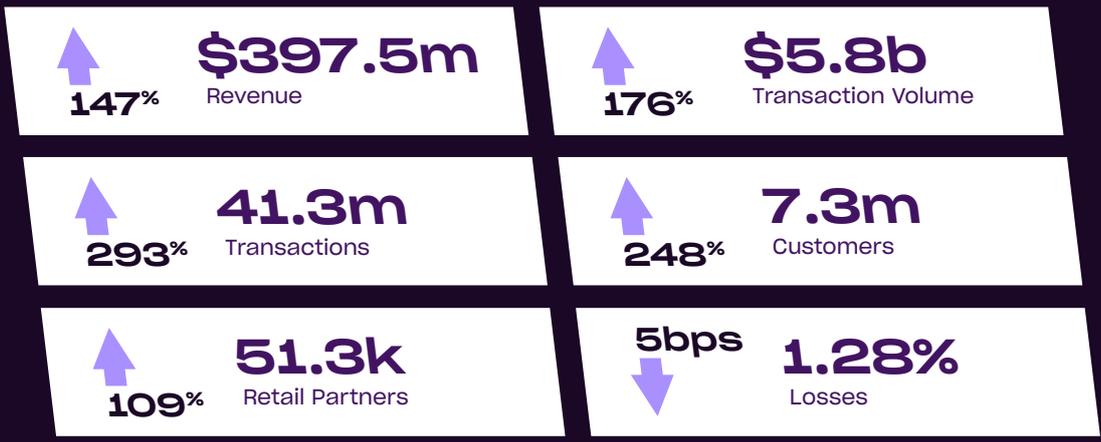
USA

MEXICO



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UK + IRELAND

POLAND + CZECHIA

CONTINENTAL EUROPE

MIDDLE EAST

SE ASIA

SOUTH AFRICA

AUSTRALIA + NZ

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OUR PURPOSE

Create a world
where people
can live fearlessly
today, knowing
they're in control
of tomorrow

OUR MISSION

To be the first payment choice, everywhere and every day.

WHY WE EXIST

We have the opportunity to rebalance the payments landscape, putting people, not financial institutions, in the centre. We make money by bringing customers and merchants together in a way that provides value for both sides, not from people falling behind.

We give people the knowledge, access and ability to control their financial lives, because we believe that when people are in control of tomorrow, they can live fearlessly today.

That belief extends to our own people. We give Zipsters the access and support they need to be fearless. When Zipsters act without fear they create a better world for themselves, our customers, merchants and our communities.

VALUES

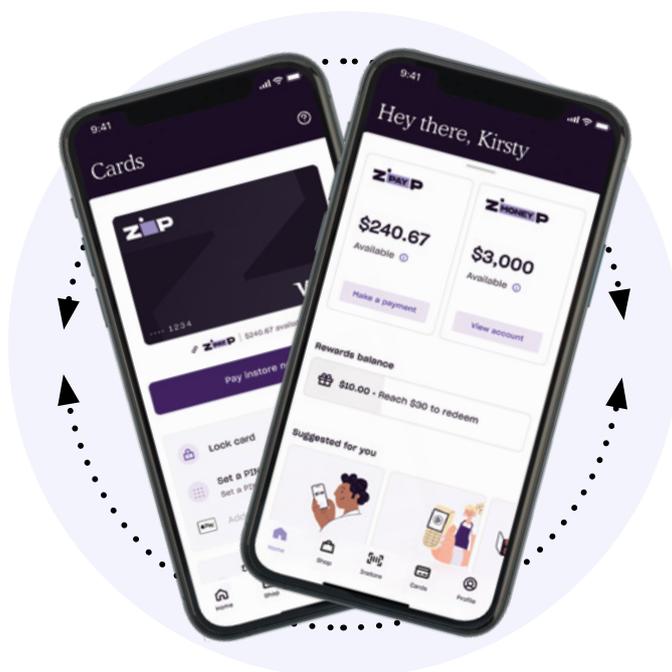
- Customer first
- Own it
- Change the game
- Stronger together

Different and Better

Our unique model forms the foundation of our growth and sustainable financial performance.

OUR FLYWHEEL EFFECT

We operate a two-sided network that brings customers and merchants together for valued payment experiences.



OPEN NETWORK

Customers' ability to shop anywhere is unlocking spend in new everyday categories

INTEGRATED NETWORK

Organic growth through our digital wallet is driving demand for our integrated partners

KEY DIFFERENTIATORS

We have a unique set of competitive advantages that enable us to win.

OUR PRODUCT

We offer short and long term duration instalments in a single checkout experience.

FLEXIBLE SOLUTIONS

We operate both an open and integrated network, accelerating our flywheel and enabling customers to buy now and pay later everywhere.

OUR BUSINESS MODEL

Our unique revenue model drives income from customers and merchants, enabling us to support partners in any vertical and deliver market leading unit economics.

RISK MANAGEMENT

Our proprietary decisioning platform drives superior approvals and conversion for merchant partners while delivering profitable outcomes.

GLOBAL REACH

We are a truly global BNPL player. Our global technology platform enables us to unlock 12 markets for partners through a single API integration.

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Dear shareholder,

With the global community reeling from the impact of COVID-19, Zip focused on our customers, rapidly evolving our products to ensure customers could transact where needed, every day. In an uncertain financial climate, customers have valued the flexibility Zip provides. This financial year, Zip has served 7.3 million customers delivering \$5.8 billion in total transaction value to our 51,000 plus merchants helping them maintain and grow their businesses in the face of significant upheaval.

Zip is committed to socially responsible business practices to help our global community of customers and merchants thrive amid this unprecedented change. Our forward-thinking approach has seen us grow rapidly across multiple international markets. To sustain this responsible growth the imperative is to double down on exceeding regulatory and consumer expectations. In line with this, Zip is crystallising our approach to social responsibility. Our maiden Social Impact Report can be found later in this report.



DILIGENCE AT THE CENTER OF GROWING THE ZIP FAMILY

In the past year, Zip has served customers and merchants in 12 markets. Your company does not take an opportunistic approach to geographic expansion. Zip's New Markets team is tasked with taking a strategic approach to expanding the business into new territories. After each acquisition we have evolved the process to continue to select strong candidates in new markets with opportunities for growth within the Board's risk appetite.

Zip takes time to find the right organisations, seeking a strong alignment of people, products, values and technology. This follows a deep evaluation of the market and an assessment of the regulatory environment.

The Board and management complete a meaningful stage gated diligence process that has led to a growing coalition of founders that lead Zip in each market. It is this process, together with witnessing first-hand their dedication and approach, that gives us comfort the right people are leading in each territory.

We are proactive in our engagement with regulators in each jurisdiction we operate in. In particular, we have deep engagement with both US and Australian regulators and have had significant input into their emerging frameworks for the BNPL sector.

Another area of focus has been cyber security and our allied efforts in data security. John Batistich, a long serving non-executive director, has brought specific leadership to this arena.

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“Zip has served 7.3 million customers delivering \$5.8 billion in total transaction value to our 51,000 plus merchants.”

AN EYE TO GOVERNANCE AS WE MOVE FORWARD

All of us at Zip thank Philip Crutchfield for his tremendous contribution during his seven years in the role of Chair. His tenure was marked by sound judgement and a steady hand which continues to stand us in good stead.

Strong governance is underpinned by a connected Board with oversight of all aspects of the business. Bringing together the right mix of skills and experience is critical to enhancing this as we grow. It is our intention to expand the Board for greater independence, more representation in the company’s growth markets, and to right-size the Board as we continue to grow.

Boards can often be disconnected from the day-to-day activities of a company. Oversight is achieved by the technologies and processes in place that provide transparency across the business. This transparency, and the openness of our Zipsters, is a governance gift that allows us to steer the business with confidence into the future.

Our Zipsters continue to bring our growth strategy to life. I would like to recognise the commitment and excellence of each of our 1,000+ Zipsters spread across the globe and thank them on behalf of the Board for delivering on a transformational year they can look back upon with pride. Ultimately, our people are the key driver of customer satisfaction and of your company’s performance.

This year we have especially appreciated the ongoing support of our over 130,000 shareholders and the thousands more that own Zip shares through their retirement funds. Your Board and management team are committed to evolving your company to ensure it is future-fit and can continue to perform for customers, merchants, shareholders, Zipsters and the community. We thank you for your ongoing support.



**Diane Smith-Gander AO,
Chair**

Dear fellow shareholders,

Every day I am reminded that what we do at Zip is incredibly relevant to everyday customers. The past 12 months in particular have reinforced the importance of our position in the payments universe and underscored how essential our products are becoming.

The impact of COVID-19 shone a spotlight on high interest rates charged by credit cards even at a time of the lowest interest rates in history. Too many financial institutions pretend to take an interest in people, but only succeed by taking interest from them. We can, and will be, the most fair and responsible payments brand that operates on the side of its customers.

Our business model has proven to be resilient and robust against a challenging global backdrop. Zip has benefited from the global acceleration towards digital payments and consumer choice. We are able to meet the customer wherever they are and wherever they want to transact. The feedback we have received from merchants for innovating and executing in a demanding environment has been overwhelmingly positive.



A GLOBAL PAYMENTS PROVIDER

A little over a year ago, the acquisition of QuadPay in the US marked the beginning of the expansion of our global footprint. Growing the US operation to 4.4m customers, \$2.6b TTV and \$186m revenue is undisputable proof of our ability to execute globally. The proposed acquisition of Twisto serving EU markets, Payflex in South Africa, and Spotii in the Middle East, our strategic investment in TendoPay in the Philippines and our organic expansion into Canada and Mexico shows our commitment to reach into new markets to capture nascent BNPL audiences.

Following our coalition of founders model, where we back strong founders with a shared vision and deep cultural alignment in our quest for global payments coverage, we now have exposure in 12 markets. With approximately \$24 trillion in total addressable market volume and BNPL penetration of global eCommerce spend only 2.1% there is significant headroom to grow in each market.

Importantly, each founder is laser-focused on winning in their respective market and has demonstrated a hunger to change the game. Together, this coalition has the agility to compete against the biggest financial brands in the world. This is how Zip remains a company of purpose and drive as we rapidly expand. We have established ourselves as a truly global BNPL provider.

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For

“Our coalition of founders has the agility to compete against the biggest financial brands in the world.”

LIVING FEARLESSLY

We've grown from strength-to-strength as 'Zip' – rapidly moving, building incredible products, fostering a wickedly great company culture, and striving to make a positive impact on the financial world. In year seven, we have continued to build this culture of fearlessness. Creating the right environment for our team to be fearless creates a playground for Zipsters to thrive and operate at their best, wherever they are in the world.

But it is not just our Zipsters we want to be fearless. People are so worried about their current financial situation that they can't focus on their financial future. Our purpose “Create a world where people can live fearlessly today, knowing they're in control of tomorrow” is as live as it can be. Responsible lending and providing people with the tools to manage their financial life empowers people of all ages to take financial responsibility.

This year thousands of merchants and over 2.5m customers used Zip for the first time.

Our mission “To be the first payment choice, everywhere and every day” has not changed. In FY21 we launched Tap & Zip, enabling Zip to compete with the credit card at every checkout in Australia, interest-free. We have delivered integrations to Apple Pay and Google Pay so Tap & Zip can be used anywhere online and in store. We will continue to innovate to achieve 'top of phone' presence and increased share of wallet.

We have a consistent strategy centred on our customer. We evolve our capabilities in anticipation of changes in customer preferences and we respond through investment in technology and innovation. Our technology position is a critical competitive advantage.

Together we are building towards a financially fearless world. It's a journey that we recommit to every day. It's up to us to create the future we want.



Larry Diamond
CEO

This year has been transformational as we became a global payments business powered by world class technology and talent

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FY21

**BUSINESS
REVIEW**

FY21

BUSINESS REVIEW

Strategic Priorities

This year has been transformational as we became a global payments business powered by world class technology and talent, ending the year with a presence in 12 international markets.

Zip has delivered against its four FY21 strategic priorities:

- Payment acceptance
- App engagement
- Global expansion
- Zip Business

PAYMENT ACCEPTANCE

Increasing the capacity for customers to pay with Zip wherever they transact is a core component of Zip's growth.

IN-STORE

Tap & Zip was launched in Australia in October 2020, to unlock everyday in-store spending. Customers can add a virtual Zip card to their digital wallet and use it at any retailer that accepts Visa and contactless payments, allowing customers to gain the benefits of Zip when shopping with merchants outside of our network.

ONLINE

The US business developed an award-winning Chrome Extension, allowing customers to use our product when shopping online at any US retailer, including those outside our network.

MERCHANT PENETRATION

Merchants remain a critical part of the business model and merchant acquisition and retention remain a key area of focus. In FY21 Zip grew its merchant base to over 35,000 in ANZ and over 15,000 in the US – an increase of 388% in that market – closing the year with 51,300 merchants globally.

CHANNEL PARTNERS

We continue to invest in strategic partnerships that enable fast and easy access to BNPL products for merchants across the globe. Global partnerships with both Stripe and Adyen will enable merchants around the world to integrate Zip quickly and easily into their operations.

ICONIC BRANDS

We continue to partner with global merchants like Shein and boohoo while understanding the importance of iconic brands like JB Hi-Fi, Sears and Fanatics in our core markets.

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PARTNERSHIP

“We continue to partner with global merchants while understanding the importance of iconic brands in our core markets.”

FY21

BUSINESS REVIEW

Strategic Priorities (cont.)

APP ENGAGEMENT

Zip has seen high levels of customer growth in FY21, closing the year with 7.3m customers, a 248% increase YOY. There was particularly strong growth in the USA to 4.4m customers and ANZ to 2.8m customers.

Deep customer engagement and our market leading, machine-learning decision capability is delivering unrivalled credit performance allowing risk management at scale and onboarding of under-banked consumers.

Our technology platforms enable us to build direct relationships with individual customers, independent of merchants, that drive retention, allow us to increase visibility of other products within the Zip ecosystem and drive new customers to merchants within our network. In the US, more than 30% of activated App customers go on to make purchases within our integrated network.

Our Apps are primary communication channels with customers and provide a platform that enables transactions, delivers rewards and promotions, and allows customers to track their spend and repayments.

OUR APPS ARE MARKET LEADING

In FY21 the Zip App was downloaded by approximately 80% of Australian customers in their first month. The value it provides was recognised through a 4.9 star rating on the Apple Store and a 4.8 star rating on Google Play.

MORE TRANSACTIONS

App downloads continued to grow throughout the year. At the close of FY21 5.8m consumers had downloaded the QuadPay App and 2.8m the Zip AU App, allowing those customers to shop across all categories and values.

REWARDS AND CASHBACK

This year Zip has introduced reward and cashback programs in Australia following a successful trial in Q2. The programs are delivered through the App, significantly increasing engagement and driving more transactions.

FIERCE GROWTH

“In FY21 the US market helped to drive record transaction volumes and revenue in that market increased.”

GLOBAL EXPANSION

This year has seen a rapid global expansion, with both acquisitions and organic growth delivering new market entries. Zip raised \$176.7m in equity and \$500m in convertible notes, with most funds allocated to fuel our international expansion including the significant US growth opportunity.

US SUCCESS

Zip has seen continued strong momentum in the US following the completion of the QuadPay acquisition. The transparent and flexible model has created a strong base of consumers who recommend the product to their peers. A significant percentage of new customers were gained organically in this market, which saw a 144% YOY increase in customer numbers. In FY21 the US market helped to drive record transaction volumes and revenue for Zip.

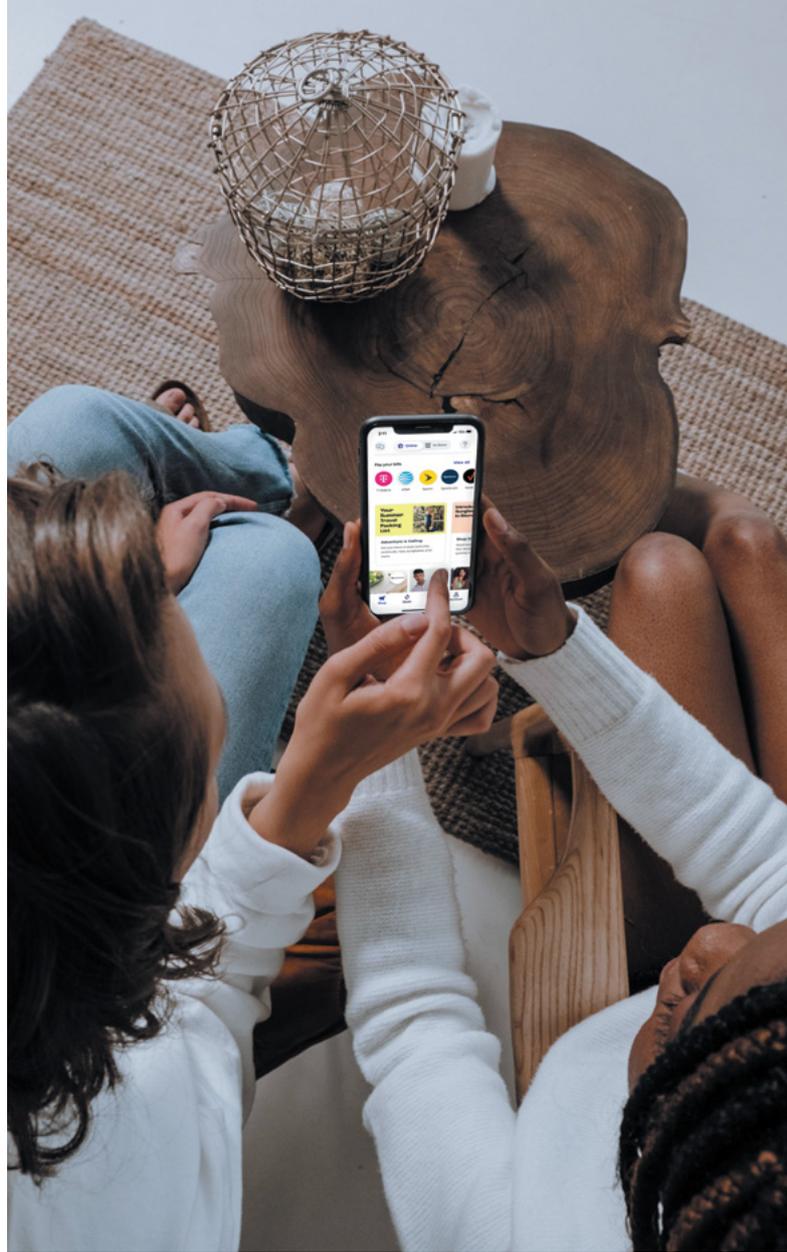
UK

Zip launched in the UK with several marquee brands including Homebase, boohoo and The Hut Group. Mirroring the functionality of the US business, the UK initially launched with a pay-in-four product, providing the foundations for long-term growth in that market.

NEW MARKETS

To facilitate ongoing global growth, Zip established a New Markets team. The team is equipped to rapidly assess new market opportunities, whether delivered through acquisition or organic growth, execute transactions and deliver appropriate integration programs. In FY21 Zip made investments in Europe with Twisto and the Middle-East with Spotii and in FY22 plans to complete the full acquisition of those businesses. Zip also entered SE Asia with a strategic investment in Philippines-based TendoPay.

Zip has begun to build a presence in both Canada and Mexico, supported by the Zip US team and technology platform, with full-launches for those markets planned for early FY22. Zip's unified technology platform allows the business to rapidly deploy in new markets, across multiple currencies in a single stack, driving greater back-end integration.



ZIP BUSINESS

In FY21, Zip successfully launched Zip Business in ANZ, delivering two interest-free BNPL products for small and medium enterprises (**SMES**) – Zip Business Trade and Zip Business Trade Plus. These products allow SMEs to access funds of up to \$3,000 and \$150,000 respectively. Over 30,000 stores accept Zip Business, including Bunnings Warehouse, Officeworks and Tradelink. Zip Business also secured strategic partnerships with Facebook and eBay in FY21. Businesses can also use the funds to pay invoices and bills, giving them greater control over their cashflow. In a year where Australian businesses have been subject to rolling lockdowns in response to COVID-19, this product meets an important business need. Zip Business has a dedicated team focused on customer acquisition and engagement across Australia and has seen strong growth throughout the year.

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EMPOWERING

“We are fearlessly leading the way, empowering Zipsters to shape a better world.”

People and Culture

LEADING THE WAY, INVESTING IN OUR PEOPLE

We are fearlessly leading the way, empowering Zipsters to shape a better world. A big part of this is how we invest in and develop our leaders to create an environment where our people do their best work.

We are committed to creating the place, culture and system where Zipsters do their best work. Growing the team of 1,000+ people across current and future markets has required us to build people foundations from scratch and for scale. Our philosophy has been to build with our people not for them. Our recent engagement score of 89% globally suggested we're on the right track, however we still have a long way to go. Here is an update on some of our progress.

BUILDING CAREERS AT ZIP

Attracting world class talent requires creating a framework and environment that enables people to grow their careers at Zip. We have completed a company-wide architecture and salary banding exercise that has created transparency in career progression and mobility options across our global organisation.

We refreshed and embedded our 6 monthly performance check-in program in January 2021, which ensures all employees receive two way feedback and career development support.

EMPOWERING OUR MANAGERS

We introduced a number of inclusive policies that empowered our managers during these unprecedented times. Flex @ Zip enabled managers to make decisions around their team's health, wellbeing and ways of work during the pandemic and managed return to work connection at a team level.

Our Australian manager community completed a program of training, designed to ensure a consistent approach to people management across our business. This was developed for our phase of growth, values and expectations of leaders at Zip. We are measuring the success of this through manager upward feedback where each manager receives feedback and a score from their team on how they can improve.

BUILDING LEADERS FOR SCALE

We are in the process of defining our global leadership principles, which will shape how we hire, develop, performance manage, reward and recognise, and offboard leaders at Zip. This will raise the bar and help us focus development and succession planning efforts to ensure we have leaders that will help us scale and deliver value for our customers.

Laying Strong Foundations

Zip is committed to good governance, transparency and accountability. The Board believes this is essential for the performance and sustainability of the business and to protect and enhance the interests of shareholders and stakeholders.

Zip's governance framework plays a critical role in helping the business deliver on its strategy. It provides the structure through which business objectives are set, performance is monitored and risks are managed, and it provides guidance on the standards of behaviour expected of Zipsters.

Zip's governance framework, including our statement of compliance with the ASX Corporate Governance Council's Corporate Governance Principles & Recommendations (4th ed) is available on our corporate website, together with key governance documents, including charters and policies.

FY21 was another very busy year for the Board. During FY21 Diane Smith-Gander replaced Philip Crutchfield as Chair of the Board and Pippa Downes was appointed as the Chair of the Audit & Risk Committee and replaced Dianne Challenor. Both Diane and Pippa's extensive experience have enhanced our oversight and practices across our operating geographies.

The Board and Management also established an Investment Committee with oversight of significant investments and acquisitions. These have included the investments in Twisto, Spotii, TendoPay, and Payflex.

BRILLIANT BASICS

As our people, customer and community impact grows, we need to ensure we're investing in good corporate and operational governance at Zip.

A key area of focus over the last 12 months has been investing in the brilliant basics across our business, including our people operations and compliance basics. We want to build a compliance mindset into our flow of work and every decision we make that impacts our people and customers.

We have been approaching this in a number of ways including:

- Dedicating resources to compliance projects;
- Hiring subject matter experts to identify and address our blind spots; and
- Working with external experts to level up our approach.



TRAINING

Our Zip Training Program provides all Zipsters with the knowledge and support needed to understand our practices, policies and regulations which apply to our business.

The program's focus for FY21 was to ensure completion of compliance training across our Australian workforce. In FY22 we will implement annual retraining and roll out global and jurisdiction specific training across our regions.

We've successfully developed and rolled out the following training across Australia and New Zealand this financial year: AML/CTF training, workplace bullying, sexual harassment prevention, privacy awareness, information security, whistleblower disclosure, modern slavery and cyber security training.

PEOPLE POLICIES

In addition to training, we have used external advisers to review and refresh our people policies to ensure they are compliant, relevant and up to date in a post-pandemic world. Some new policies we are particularly proud of introducing in FY21 include:

- Flexible Working Policy (our trust-based approach to working flexibly at Zip);
- Miscarriage Bereavement Leave Policy (introducing two weeks paid leave in the case of pregnancy loss within the first 20 weeks);

- Volunteer Leave Policy (introducing two days paid volunteering and matched giving);
- Family and Domestic Leave Policy (lifting from five unpaid to 10 paid days); and
- Parental Leave Policy (removing tenure requirements).

In addition to Australia, we are developing localised policies and handbooks for each of our regions, to be live in FY22. We want to develop policies and guidelines in a clear, human manner, so our people know the boundaries in which they can innovate.

GLOBAL PEOPLE OPERATIONS

We invested significantly in our people technology stack in FY21 to ensure we have the technology and security foundations to automate workflows, create single sources of data and a user experience to enable us to scale.

We launched our first global Human Resources Information System (HRIS) in FY21, creating a single source of truth to view all people data. We also introduced a performance and engagement tool to scale career conversations, end of year outcomes, and overlay performance and engagement insights.

In addition to our technology stack, we are building scalable workflows across our global employment lifecycles to enable employees to self-serve information safely in their flow of work.

We recognise the critical role we play in contributing to a better world for our people, customers and communities

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DO BETTER

SOCIAL IMPACT
REPORT

SOCIAL IMPACT

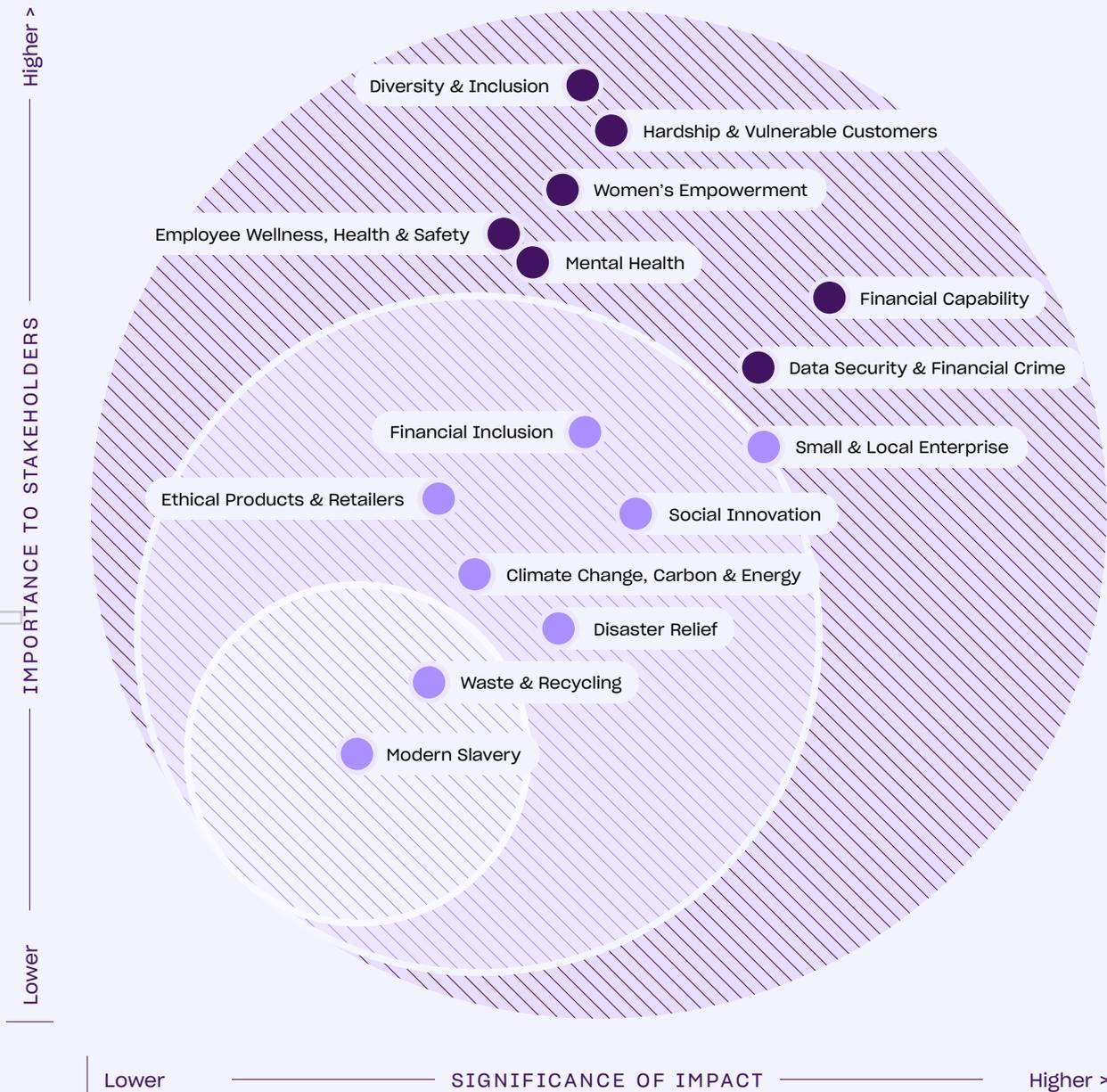
REPORT

Zip has always been committed to responsibility, putting the needs of our customers and Zipsters at the heart of everything we do. We recognise the critical role we play in contributing to a better world for our people, customers and communities.

In FY21, Zip took deliberate actions to lay the foundations that will allow us to influence positive change in areas relevant to our business. To develop our social impact strategy, we undertook a comprehensive and industry recognised approach to identify important issues where Zip can have a meaningful impact.

Being Responsible

Zip Materiality Matrix



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DEVELOPMENT OF THE STRATEGY

We undertook benchmarking, stakeholder engagement, UN Sustainable Development Goals (SDG) mapping and materiality analysis to identify our environmental, social and governance topics, following Global Reporting Initiative (GRI) guidelines.

Zip ran a consumer survey and conducted over 50 interviews globally with a diverse set of internal and external stakeholders including consumer advocacy groups, merchants, and non-governmental organisations (NGOs).

This information fed into our materiality matrix, which in turn fed into our social impact strategy.

OUR SOCIAL IMPACT STRATEGY – ZIP IT FORWARD

We're proud to have developed our first, global social impact strategy – **Zip it Forward**. The strategy tackles real issues and targets groups that we can meaningfully impact.

“We have a great platform and great reach. We have the opportunity to create social impact and it would be remiss of us if we didn't.”

Peter Gray, Global COO and Co-Founder

Social Wellbeing

Goal: Zipsters and communities are able to flourish

- Diversity, equity & inclusion
- Employee health & wellbeing

Zip it Forward

Financial Empowerment

Goal: People are empowered to take control of their financial lives

- Financial wellbeing
- Hardship & vulnerable customers
- Small & local enterprise

Company Citizenship

Goal: Zip continues to be a responsible global citizen

- Environment
- Ethical supply chain
- Data security & financial crime

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Being Responsible (cont.)

KEY GROUPS

We have identified three priority groups who will be the focus of our programs. Each group was chosen based on their relevance to Zip, and the level of vulnerability or disadvantage that they face.

Women: Women experience lower financial capability and are under-represented in the technology sector.

Black and Indigenous communities: Black communities in the US and Indigenous Australians experience lower financial capability, systemic disadvantage and under-representation in the technology sector.

Youth: Young people have lower levels of financial capability and young girls lack confidence to enter tech careers.

SUSTAINABLE DEVELOPMENT GOALS

We believe that finance and technology will play a key role in many of the United Nations' SDGs. To establish how Zip could connect the SDGs to our social impact strategy and material issues we:

- Reviewed the SDGs in the context of Zip's business activities;
- Mapped the list of identified goals to both our value chain and impact matrix; and
- Considered the relevance of the identified goals to our stakeholders.

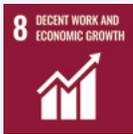
We identified SDGs that align with our strategy and plan to use these goals as a platform to explore new ways of creating positive global impact.

“The UN SDGs will be a focus for the development of future activities at Zip, as we seek to have a meaningful impact on issues of global importance.”

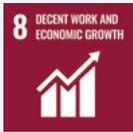
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Financial Empowerment



Company Citizenship



Social Wellbeing



Partnerships



Across all our work, we seek to support and partner with organisations and individuals who are building creative solutions to the global challenges. Through this, we will contribute to Goal 17, Partnerships.

SOCIAL IMPACT

REPORT



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FINANCIAL EMPOWERMENT

As a financial technology company with global reach and accessibility, Zip has extraordinary potential to impact the lives of millions of people. From day one, we've been laser-focused on responsibility and putting our customers first. We also know that financial inequality is one of the greatest global challenges and that many people in our communities do not feel empowered, or in control of, their financial lives. In light of this, a core focus of our strategy is financial empowerment.

Our aim is for people to be empowered to take control of their financial lives. We pursue this aim through a focus on three core topics:

1. Financial wellbeing;
2. Hardship & vulnerable customers; and
3. Small & local enterprises.

SOCIAL WELLBEING

As a business employing more than 1000 employees, Zip has a responsibility to provide a safe and inclusive working environment which enables everyone to thrive. Beyond this, we recognise our role in supporting wellbeing and promoting equity and inclusion in the tech industry more broadly. As we continue to expand into new markets, we must understand the different economic and cultural factors that influence social inequality and ensure we are equipped to play an active role in driving equitable outcomes.

Our overarching aim is to enable Zipsters and communities to flourish, a goal that we pursue through a focus on two key topics:

1. Employee health & wellbeing; and
2. Diversity, equity & inclusion.



CORPORATE CITIZENSHIP

Zip is committed to conducting business responsibly in every region where we, our subsidiaries and suppliers operate. We acknowledge the role that we play in upholding high ethical standards when it comes to our supply chains and business practices. We also take seriously our responsibility to protect customer data to play our role in combating financial crime. With this strategy, we're also introducing a stronger focus on supporting environmental sustainability through our business operations and community engagement.

Our overarching aim is for Zip to continue to be a responsible global citizen, a goal that we pursue through a focus on three key topics:

1. Environment;
2. Ethical supply chains; and
3. Data security & financial crime.

ZIP IS CLIMATE NEUTRAL



In FY21, Zip committed to offsetting all carbon created through our global business operations and achieving a climate neutral certification. As part of this process, we:

- Partnered with South Pole, a leading climate action expert, to calculate our global carbon emissions totalling 4,288 tCO₂e (direct and indirect emissions);
- Selected climate positive projects in Australia, USA, Mexico and Vietnam to offset our emissions. These projects were selected with the help a group of Zipsters passionate about the planet;
- Established a baseline of our carbon emissions for a better understanding of where to focus our efforts in reduction; and
- Achieved a Climate Neutral Certification from South Pole.

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SOCIAL IMPACT

REPORT

Community Engagement

During the course of FY21 we worked with a range of not-for-profits and social enterprises to support the communities in which we operate.

HEALTH AND WELLBEING

To better support the mental health of our team, Zip launched a partnership with **Heart On My Sleeve**, a mental health social movement that empowers people to be real about how they feel. Heart On My Sleeve will deliver Real Mates, a workplace training program that equips individuals and teams to support each other and better understand tools for improving their own mental health and wellbeing.



WELLBEING



INCLUSION



SUPPORT



HEART ON MY SLEEVE



SAVE A CHILD'S HEART

WOMEN WHO CODE



DIVERSITY, EQUITY AND INCLUSION

In line with our mission to increase inclusion and equity of opportunity, Zip proudly launched a partnership with **The Pinnacle Foundation**, a not-for-profit that provides educational scholarships, mentoring and opportunities for young LGBTIQ+ Australians to realise their full potential and overcome challenges arising from their identity. We look forward to providing our Zipsters with opportunities to volunteer and support The Pinnacle Foundation's important work.

As part of our commitment to supporting gender equality in the tech industry, we launched a partnership with **Women Who Code**, a global not-for-profit on a mission to empower women in tech careers. Women Who Code supports more than 300,000+ members around the globe to access education, job opportunities and mentors to further their ambitions.

HARDSHIP AND VULNERABLE CUSTOMERS

To better support customers experiencing family and domestic violence, Zip engaged **Good Shepherd** microfinance to review our policies and train our operations and customer service teams. Good Shepherd is Australia's oldest charity working to support women and girls experiencing abuse and disadvantage. Good Shepherd provides services and support in the areas of family and domestic violence, financial insecurity and youth experiencing disadvantage.

FUNDRAISING

Movember: In 2020, Zip donated \$51,497 to the Movember Foundation, Australia's leading charity for Men's Health. This was an employee-led donation drive supported by Zip through dollar-for-dollar matching.

Chairs for the nurses at RPA: Led by a team of passionate customer service agents, Zip raised funds to purchase massage chairs for nurses at the Royal Prince Alfred Hospital in Sydney to provide much needed relief during the COVID-19 pandemic.

India COVID-19 relief: In light of the extreme impact of COVID-19 in India, Zip launched an internal fundraiser and donated \$13,000 to Oxfam's on-the-ground work, delivering oxygen, PPE and other life-saving support.

AAPI community fund: In response to the March 2021 shootings in Atlanta, our US DEI community initiated a fundraiser to support Asian American and Pacific Islander (AAPI) communities. We raised money for four organisations: Asian Americans Advancing Justice, Asian and Pacific Islander American Health Forum,

National Coalition for Asian Pacific American Community Development and the Asian Pacific Policy and Planning Council.

Juneteenth raffle and fundraiser:

Juneteenth commemorates the end of slavery in the US. To mark the day, our US DEI community raised money for six charities supporting Black communities, including Black Girls Code and the Equal Justice Initiative.

Save a Child's Heart: In FY21, Zip continued its support for Save a Child's Heart, a global not-for-profit that saves the lives of critically ill children suffering from heart disease in countries where access to paediatric heart care is limited or non-existent. Zip's support of the Save a Child's Heart and the Waislitz's Foundation's 2021 Gala helped to fund the lifesaving heart surgery of Noh, a three-year-old boy from Ethiopia.

This is just the beginning of our social impact journey at Zip and we look forward to deepening our investment and delivering a positive impact to our broader community in FY22.

Zip has the
agility, technology,
culture and talent
to capitalise
on the global
opportunity and
build a sustainable
business

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FY22

PRIORITIES AND
GROWTH OUTLOOK



FY22

PRIORITIES AND GROWTH OUTLOOK

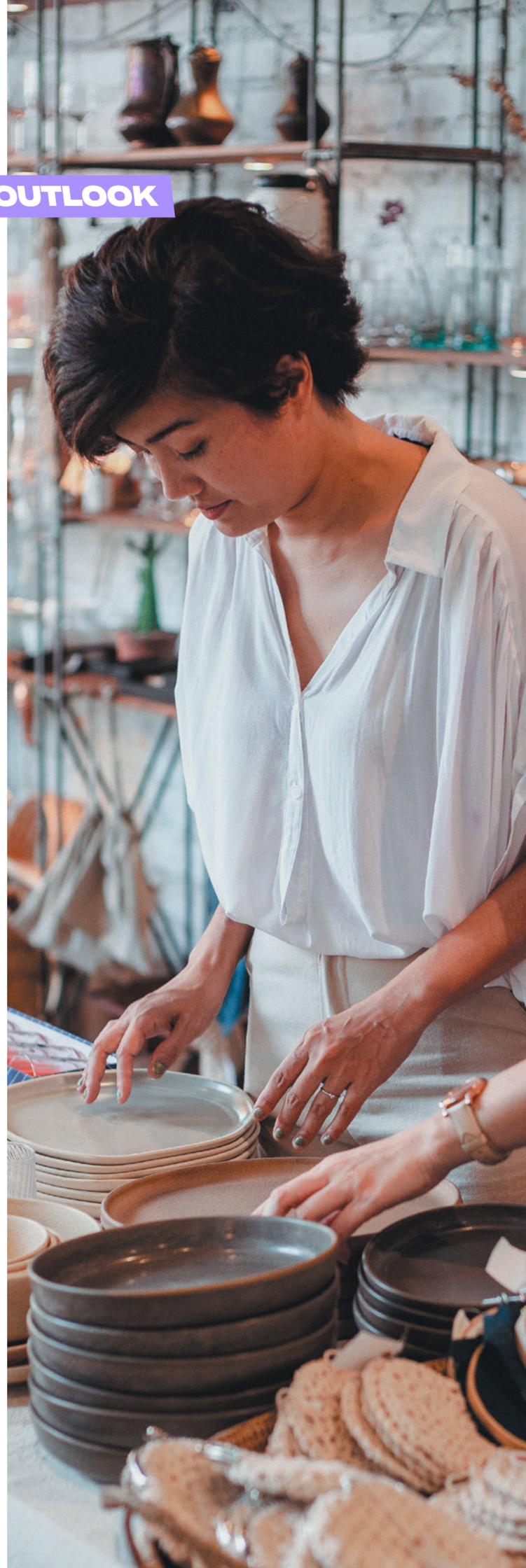
Growth Drivers

Zip has significant opportunity for growth. As one of only a handful of truly global players in the BNPL sector, Zip has the agility, technology, culture and talent to capitalise on the global opportunity and build a sustainable global business.

There is approximately \$24 trillion in total addressable market volume and BNPL penetration of global eCommerce spend is currently only 2.1%. There is significant headroom for Zip to grow as the BNPL sector continues to expand and increased customer and merchant awareness leads to greater adoption in both emerging and mature markets.

The increasing adoption of digital wallets across international markets presents an opportunity to grow in-store transactions through innovations like Tap & Zip, which allows Zip customers to pay with a virtual card in physical stores.

The acquisition and phenomenal growth of our US business has demonstrated Zip's ability to execute and scale, providing the company with a model to inform future growth in emerging and mature markets.



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1. Deepen customer engagement
2. Deliver more value to merchants
3. Accelerate global expansion and international growth
4. Build toward a financially fearless world

FOCUS

For FY22, Zip is laser-focused on four main strategic priorities to drive growth:

DEEPEN CUSTOMER ENGAGEMENT

BE NO. 1

Zip is committed to being the most customer-centric fintech brand in the world. This commitment drives our focus in every area of the business, from product design to customer engagement, and will increasingly act as a point of differentiation in settings where multiple BNPL options are available to consumers.

DELIVER ON EXPERIENCE

We create value for our customers from joy rather than value for our business through their failure. We continue to focus on providing world-leading customer experiences that encourage the responsible use of our products, seeking to minimise the number of customers who fall behind and ensuring fair and appropriate support is available for the very small number who do.

CUSTOMER OPTIMISED PRODUCT SUITE

We will provide a digital wallet experience with an expanded range of services that meet the needs of customers to ensure Zip becomes and remains top of phone to increase share of everyday wallet transactions. In particular, we will focus on introducing longer duration lending products outside of Australia.

PERSONALISATION

Increased personalisation of both in-App content and broader customer communications, delivering targeted messages, promotions and merchant content that aligns with users' individual behaviours, will allow us to provide the right product at the right time for customers.

FY22

PRIORITIES AND GROWTH OUTLOOK

Growth Drivers (cont.)



DELIVER MORE VALUE TO MERCHANTS

Merchants are a critical part of Zip's business, providing a significant source of customer acquisition – particularly in new markets. We continue to focus on ways to deliver a market-leading merchant experience, with clear value for merchants that partner with Zip.

DEMAND GENERATION

As Zip's global customer base grows, we can drive increasing levels of new traffic directly to merchants and create feedback loops within our App to promote more purchase activity both through higher purchase volumes and increased numbers of repeat purchases.

GLOBAL MARKET INTEGRATIONS

Zip has made several investments to grow its global footprint. These strategic transactions have enabled Zip to respond to the increased demand from merchants for a single global BNPL solution across multiple markets with consistent global service quality. To date we have successfully integrated several merchants and partners including boohoo, Cotton-On, and JD Sports under a single login globally. As the business begins to operate under a single global brand, merchants will see increased streamlining of Zip integrations.

ZIP BUSINESS

In FY21 we set the foundations to accelerate the growth of Zip Business. In FY22 we will focus on scaling customer acquisition and increasing our presence across priority verticals.

“Zip is well positioned to identify and capitalise on the opportunities for strategic expansion across the globe.”

ACCELERATE GLOBAL EXPANSION AND INTERNATIONAL GROWTH

In addition to the potential for growth in more mature markets, there is a growing opportunity in emerging markets supported by macro trends, such as the increasing adoption of smart-phones and mobile payments. Our dedicated New Markets team ensures Zip is well positioned to identify and capitalise on the opportunities for strategic expansion across the globe. In FY22 we will focus on scaling in markets where we have an established presence and capitalising on opportunities in high-growth markets and those markets where we have made strategic investments such as the Philippines.

MAXIMISE THE US OPPORTUNITY

Further building our merchant base and key partnerships to increase our US footprint, while also broadening the product suite to deepen consumer engagement.

ORGANIC GROWTH IN NEW MARKETS

Continuing to support the growth of our newer markets including Canada, Mexico and the UK, while identifying and executing on further opportunities for international expansion over the course of the year.

EUROPEAN ROLLOUT

Twisto holds a European Payment Institution license, enabling the provision of payments services across all EU member states subject to regulatory consents.

MIDDLE EAST GROWTH

Spotii is operational in the UAE and KSA and poised to expand further. The Middle East is one of the fastest-growing eCommerce regions globally, with online spend increasing at 25% annually.

UPLIFT THE KNOWLEDGE, CAPABILITY AND DIVERSITY OF OUR ZIPSTERS

As we united Zip's global operations under a single brand, we set out a renewed brand platform, built on the belief that when you give people the knowledge, access and ability to control their financial lives, you give them the ability to live every day with confidence. Building toward our promise of creating a financially fearless world.

Our social impact report on page 24 sets out our work to date, and in FY22 we will continue to invest in social impact initiatives that drive financial wellbeing and align with our renewed purpose. Those initiatives will target our customers, the communities in which we operate and our people as we seek to uplift the knowledge, capability and diversity of our Zipsters.

BOARD OF DIRECTORS



DIANE SMITH-GANDER AO
Chair

Qualifications:

BEc, MBA, FAICD, FGIA, Hon. DEC, FAIM, GAICD

Term:

Non-Executive Director and Chair of the Board appointed on 1 February 2021

Independent:

Yes

Committees:

Member of each of the Audit & Risk Committee and Remuneration, People & Culture Committee and Chair of the Nominations Committee.

Directorships:

Chair of Zip Co Limited, Chair of DDH1 Limited, Chair of Safe Work Australia, Chair of the Committee for Economic Development of Australia, Director of AGL Energy Limited, Keystart Loans Group and HBF Health Limited.

Experience:

Diane has extensive Australian and international experience in banking and finance, technology, and strategic and management consulting. This includes as a former partner at McKinsey & Company, and Group Executive IT and Operations, Westpac Banking Corporation.



LARRY DIAMOND
Managing Director and
Chief Executive Officer

Qualifications:

BTech(IT), MCom, MBA, CA

Term:

Executive Director appointed on 11 September 2015

Independent:

No

Committees:

None

Directorships:

None

Experience:

Larry co-founded Zip with Peter Gray in 2013 with the goal of disrupting the broken credit card model, using technology to create a transparent, fairer and more flexible alternative.

Larry has lead Zip from fintech start-up to one of Australia's leading digital payment tech companies. Today Zip is an ASX200 listed company with over seven million customers globally and a presence in 12 international markets.

Prior to Zip Larry spent 12 years working in retail, technology and investment banking, where he first saw the opportunity to digitise financial services with innovative products that bring customers and merchants together. His career included two years at Deutsche Bank as a Senior Associate within the Corporate Finance team and three years as an Investment Banking Manager at Macquarie Capital.



PETER GRAY
Executive Director and Chief Operating Officer

Qualifications:

Diploma of Finance

Term:

Executive Director appointed on 11 September 2015

Independent:

No

Committees:

None

Directorships:

None

Experience:

Peter co-founded Zip with Larry Diamond in 2013. Under his co-leadership, the company has grown to become a truly international BNPL business.

An operations and consumer credit expert, Peter has underwritten over 3 million customers, \$7 billion in transaction volume and \$2 billion in loan receivables in Australia alone since the company was founded. Peter was the chief architect in developing Zip’s market-leading credit and decisioning technology platform and the launch of Zip’s Master Trust receivables funding program.

Peter oversees Zip’s global operations including credit and risk management. Peter is a respected Australian BNPL authority and commentator, with over 25 years’ experience spanning regulated consumer credit, operations, risk, legal, compliance and publicly listed companies.



JOHN BATISTICH
Non-Executive Director

Qualifications:

MM, BBus, GAICD

Term:

Non-Executive Director appointed on 6 February 2018

Independent:

Yes

Committees:

Chair of the Remuneration, People & Culture Committee and Member of the Nominations Committee, and the Audit & Risk Committee.

Directorships:

Chairman of Foodco Group Pty Limited, Foodco Holdings Pty Ltd, Jahnus Pty Limited, Jamaica Blue Pty Limited, Muffin Break Pty Ltd, and Insight Tools Pty Limited.

Experience:

John is a highly-experienced growth leader who brings marketing, digital and human resources skills to the Board. John has over 24 years of cross sector experience in Research, Marketing, Digital and General Management with blue chip companies like Westfield Group, Interbrand, Wrigley Company, Pepsico Foods, Kimberley Clark and Lion Nathan.

BOARD OF DIRECTORS



PIPPA DOWNES
Non-Executive Director

Qualifications:

MAppFin, BSc BusAdmin, GAICD

Term:

Non-Executive Director appointed on 1 October 2020

Independent:

Yes

Committees:

Chair of the Audit & Risk Committee, Member of the Remuneration, People & Culture Committee and Member of the Nominations Committee.

Directorships:

Ingenia Communities RE Limited, Ingenia Communities Holdings Limited, ALE Property Group, ATI Global Limited and a Commissioner of Sport Australia.

Experience:

Pippa is a professional company director who has held executive and non – executive roles across listed, not-for-profit and government enterprises. She brings significant experience in international banking and capital markets to the Board as well as broad industry knowledge across financial services, technology, infrastructure and property. She is a Commissioner of Sport Australia and a member of the Australian Super Investment Committee. Prior executive roles include Managing Director and Equity Partner at Goldman Sachs JB Were.



DAVID FRANKS
Joint Company Secretary

Qualifications:

BEC, CA, FGIA, MCom, FFINSIA

Term:

Appointed on 21 June 2019

Experience:

David is a Director and Principal of the Automic Group. As a Senior Executive, Company Secretary and Director of ASX listed entities and professional services organisations, David has over 25 years of experience within this field, in a diverse range of industries.



TAI PHAN
Joint Company Secretary

Qualifications:

LLB, BSc

Term:

Appointed on 14 September 2021

Experience:

Tai is an experienced lawyer, Company Secretary, corporate governance and compliance professional. He has worked with Boards and executive management for ASX listed (Westpac, HT&E Limited, and Yancoal Ltd) and unlisted companies. He has experience in the IPO listing process for the ASX, has been appointed an external consultant for AUSTRAC and as the Head of Asia-Pac Compliance for Travelex and Munich Re. Tai's experience covers a range of industries including financial services, mining, information technology and legal (both private practice and in-house).



Directors' Report

The Directors are pleased to submit herewith the annual report of Zip Co Limited and its controlled entities (the consolidated entity or the Group) for the financial year ended 30 June 2021. In order to comply with the provisions of the *Corporations Act 2001*, the Directors' report as follows:

DIRECTORS

The following persons were Directors of Zip Co Limited (Zip or the Company) during the whole of the financial year and up to the date of this report, unless otherwise stated:

- Diane Smith-Gander AO (Appointed 1 February 2021)
- Larry Diamond
- Peter Gray
- John Batistich
- Pippa Downes (Appointed 1 October 2020)
- Philip Crutchfield (Resigned 2 March 2021)
- Dianne Challenor (Resigned 1 October 2020)

PRINCIPAL ACTIVITIES

The principal activity of the consolidated entity is offering point-of-sale credit and payments to customers and providing integrated retail finance solutions to merchants in the retail, education, health and travel industries, both online and in-store.

REVIEW AND RESULTS OF OPERATIONS

A summary of revenues and results for the period is set out below:

		30 JUNE 2021 \$'000	30 JUNE 2020 \$'000
Revenue from ordinary activities	Up 147%	397,519	161,001
Loss from ordinary activities after income tax attributable to members	Up 3,204%	(658,774)	(19,941)
Total comprehensive loss attributable to members	Up 3,287%	(678,065)	(20,020)

DIVIDENDS

No dividends have been declared for the year ended 30 June 2021 or for the previous corresponding period.

REVIEW OF OPERATIONS

Zip is a leading player in the digital retail finance and payments industry. Established in 2013, the Group is headquartered in Sydney, Australia with operations in the United States, New Zealand, United Kingdom, Canada, and Mexico.

The Group provides services to both consumers and small and medium sized merchants.

CONSUMERS

In Australia, Zip provides a BNPL service by way of a line of credit across two primary products: Zip Pay (with limits up to \$1,500) and Zip Money (with limits between \$1,000 and \$50,000). Revenue is generated from merchants (merchant fees), consumers (predominantly monthly fees, establishment fees and interest) and by way of affiliate fees and interchange. The Group has a strong focus on interest-free payment behaviour, encouraged through higher minimum monthly repayments, and promotional interest-free periods.

In the United States, United Kingdom, New Zealand, Mexico and Canada, Zip provides a BNPL service whereby consumers can split repayments into equal fortnightly instalments. Revenue is generated from merchant fees, affiliate fees, interchange, and service fees. In the event a consumer misses a payment, a late fee applies.

SMALL AND MEDIUM SIZED MERCHANTS (SMES)

Zip has a number of credit and payment services to support its SME base across Australia and New Zealand both online and in-store:

- Merchants can offer Zip, an interest free payment method at checkout, to increase basket sizes, conversion rates, drive repeat purchases and affiliate referrals;
- Zip offers SMEs the ability to sign up for Zip Business Trade or Trade Plus accounts, that provide an interest free digital wallet up to \$150,000, allowing businesses to pay for everyday purchases in instalments, selecting a repayment schedule that suits their business; and
- Zip also provides unsecured loans of up to \$500,000 under the Zip Business offering (formerly Spotcap).

REVIEW OF PERFORMANCE

OPERATIONAL PERFORMANCE

CONSUMERS

KEY METRIC	2021	2020	MOVEMENT
Transaction Volumes	\$5,716.4M	\$2,052.2M	178.5%
Consumers	7.3M	2.1M	247.6%
Merchants	51.3K	24.5K	109.4%

Zip's performance is driven by a number of key operating metrics including Transaction Volumes, the number of Consumer accounts and integrated Merchants. Zip has seen significant growth year on year in all key operating metrics.

Directors' Report

Continued

TRANSACTION VOLUMES

FOR THE YEAR ENDED 30 JUNE	2021 \$'M	2020 \$'M	MOVEMENT
Australia	3,048.3	1,979.4	54.0%
Global:			
USA	2,449.9	-	N/A
New Zealand	193.0	72.8	165.1%
United Kingdom	25.2	-	N/A
	5,716.4	2,052.2	178.5%

Transaction volumes generated by consumers have grown to \$5.7 billion for the financial year, an increase of 178.5%, including transaction volumes generated by QuadPay in the US from the date of acquisition, 31 August 2020. Zip is annualising at transaction volumes of \$7.2 billion having reported record quarterly transaction volumes of \$1.8 billion in the quarter to 30 June 2021.

CONSUMERS

FOR THE YEAR ENDED 30 JUNE	2021 M	2020 M	MOVEMENT
Australia	2.5	1.9	31.6%
Global:			
USA	4.4	-	N/A
New Zealand	0.3	0.2	50.0%
United Kingdom	0.1	-	N/A
	7.3	2.1	247.6%

The number of consumer accounts has increased to 7.3 million globally at 30 June 2021 an increase of 5.2 million compared to 30 June 2020. Zip continues to develop additional functionality in its digital wallet to deliver on its mission to be a customer first payment choice everywhere and every day. The introduction of "Tap and Zip" and Virtual Card Number (VCN) functionality in Australia and the Chrome extension in the US has enabled Zip's consumers to shop anywhere instore or online where Visa is accepted.

MERCHANTS

MERCHANTS	2021 K	2020 K	MOVEMENT
Australia	33.7	23.1	45.9%
Global:			
USA	15.6	-	N/A
New Zealand	1.8	1.4	28.6%
United Kingdom	0.2	-	N/A
	51.3	24.5	109.4%

Merchant numbers increased by 26,800 over the prior financial year, including 4,200 added on the acquisition of QuadPay in the US. Enterprise merchants and SMEs continue to join Zip's platform as they recognise that providing their consumers with Zip's alternative payment method at point of sale and at checkout increases sales volumes and order values, and drives repeat purchases.

SMES

FOR THE YEAR ENDED 30 JUNE	2021 \$'M	2020 \$'M	MOVEMENT
Originations	81.6	46.7	74.7%

Zip announced the official launch of Zip Business in August, partnering with eBay Australia to offer its 40,000 Australian small and medium sized businesses the opportunity to access working capital through the eBay marketplace. Zip is also partnering with Facebook, enabling small and medium sized businesses in Australia to use Zip Business to pay for advertising on the global social platform.

FINANCIAL PERFORMANCE

GROUP RESULT

Operating income grew by 148.0% to \$397.1 million in the financial year to 30 June 2021 when compared to the prior financial year, driven by a growth in transaction volumes and originations of 176.2% generated by Zip's Consumer and SME operations to \$5,798.0 million (underlying volumes), and including the results of QuadPay from the date of acquisition 31 August 2020. Gross Profit has increased by 163.2% in line with underlying volumes demonstrating the continued strength in Zip's unit economics as the business grows. Reported Gross Profit as a percentage of underlying volumes remains strong at 2.4%.

FOR THE YEAR ENDED 30 JUNE	2021 \$'M	2020 \$'M	MOVEMENT
Operating income	397.1	160.1	148.0%
Cost of sales ¹	(259.2)	(107.7)	140.7%
Gross profit	137.9	52.4	163.2%
Expenditure	(862.4)	(73.9)	1,067.0%
Loss before income tax	(724.0)	(20.6)	3,414.6%

1. Cost of sales includes interest expense, amortisation of funding costs, bad debts and expected credit losses, and bank fees and data costs.

ADJUSTED GROUP RESULT

The Group's result for the year to 30 June 2021 includes a number of non-recurring items and items that have had a significant impact on the result. The Group's adjusted loss before tax (which is non-IFRS information) is as follows:

Reported loss before tax	\$724.0 million	
Add back:		
Acquisition of business costs	\$9.9 million	On acquisitions made or announced in the period
Write-off of acquired intangible	\$42.6 million	QuadPay brand, written off on re-branding to Zip
Net adjustment relating to the acquisition of QuadPay	\$306.2 million	Revaluation and Day 1 adjustment as detailed in this report
Adjusted loss before income tax	\$365.3 million	

Directors' Report

Continued

OPERATING INCOME

FOR THE YEAR ENDED 30 JUNE	2021 \$'M	2020 \$'M	MOVEMENT
Operating income	397.1	160.1	148.0%
% of underlying volumes	6.9%	7.6%	(0.7%)

Operating income has more than doubled over the financial year to \$397.1 million in line with the increase in underlying volumes. Reported operating income as a percentage of underlying volumes was 6.9% compared to 7.6% in the prior financial year.

COST OF SALES

FOR THE YEAR ENDED 30 JUNE	2021 \$'M	2020 \$'M	MOVEMENT
Cost of sales	259.2	107.7	140.7%
% of underlying volumes	4.5%	5.1%	(0.6%)

Cost of sales increased by 140.7% over the financial year due to the increase in underlying volumes. Cost of sales as a percentage of underlying volumes fell by 0.6%, due to a fall in interest costs as a percentage of underlying volumes, the Group is now turning over capital in approximately 3 months compared to 6 to 7 months in the prior financial year, and lower bad and doubtful debts expenses as a percentage of underlying volumes, offset by higher processing costs. Processing costs incurred by QuadPay in the US, acquired during the financial year are higher than in Australia and New Zealand due to the cost of processing in the US. Zip is exploring opportunities to lower its cost of processing through leveraging its global processing requirements.

Reported bad debts and expected credit losses as a percentage of underlying volumes fell from 2.6% to 2.1%. Excluding the impact of the movement in the provision for expected credit losses, net bad debt write-offs remained consistent at 1.3% of underlying volumes. Zip continues to refine its underwriting criteria to maximise the operating income opportunity whilst managing bad debt performance.

EXPENDITURE

The Group incurs expenses that have a direct cash impact when incurred and also reports a number of expense items that either have no cash impact, a minor cash impact, or are the result of cash outflows in previous reporting periods.

DIRECT CASH EXPENSES

FOR THE YEAR ENDED 30 JUNE	2021 \$'M	2020 \$'M	MOVEMENT
Salaries and employee benefits expense	97.7	44.3	120.5%
% of underlying volumes	1.7%	2.1%	(0.4%)
Marketing expenses	71.2	9.5	649.5%
% of underlying volumes	1.2%	0.5%	0.7%
Information technology expenses	24.0	11.5	108.7%
% of underlying volumes	0.4%	0.5%	(0.1%)
Administration and occupancy expenses	29.5	11.6	154.3%
% of underlying volumes	0.5%	0.6%	(0.1%)

Zip has invested and will continue to invest in hiring and developing its employees (Zipsters) to drive growth in existing and future geographic markets. Salary and employee benefits expenses have increased 120.5% to \$97.7 million, headcount has increased from 371 at 30 June 2020 to 1,000+ at 30 June 2021. As a percentage of underlying volumes salary and employee benefits have fallen by 0.4%.

Marketing costs have increased to \$71.2 million and represent 1.2% of underlying volumes. Marketing costs comprise customer marketing initiatives, including rewards programs, rebates, co-marketing projects with enterprise merchants, and direct integration costs. The Group will continue to invest in marketing to launch in new geographies, increase volumes with new and existing merchants, and position Zip as a global brand across all geographies in which it operates.

OTHER EXPENSES

FOR THE YEAR ENDED 30 JUNE	2021 \$'M	2020 \$'M	MOVEMENT \$'M
Amortisation of intangibles	86.0	9.0	77.0
Corporate financing costs	10.8	0.5	10.3
Share-based payments	142.8	20.4	122.4
Fair value loss (gain) on financial instruments	77.6	(47.5)	125.1
Net adjustment relating to the acquisition of QuadPay	306.2	-	306.2

As a result of the decision to rebrand globally under the Zip brand, the Group wrote off the QuadPay brand during the financial year adding \$42.6 million to the amortisation of intangibles expense. The remaining increase in amortisation costs arose from the amortisation of other intangibles acquired on the acquisition of QuadPay.

The issuance of the convertible notes during the financial year resulted in an increase of \$10.2 million in corporate financing costs due to the effective interest charged on the notes.

To attract, retain and reward Zipsters, Zip offers a combination of short- and long-term incentives that are delivered through equity. The increase in share-based payments includes a \$102.7 million expense relating to the provision of retention and performance incentives, arising on the acquisition of QuadPay, approved by shareholders at the Extraordinary General Meeting (EGM) in August 2020. The remaining increase reflects the accrual for both short-term and long-term employee incentives resulting from the increased headcount, net of the once off issue of warrants to Amazon Australia, amounting to \$6.0 million, in the prior financial year.

Zip incurred a net fair value loss of \$77.6 million, recording an \$82.0 million loss in relation to the embedded derivative in the convertible notes, and warrants issued to CVI Investments, Inc., and a \$4.4 million gain on its investment in Twisto. The fair value loss on the embedded derivative and warrants equated to the difference in fair value between the date of issue and 30 June 2021.

Zip recorded a revaluation and day 1 adjustment amounting to \$306.2 million on the acquisition of QuadPay as detailed later in this report. In the previous financial year, Zip reported a revaluation gain on the revaluation of its minority shareholding in QuadPay at 30 June 2020.

Directors' Report

Continued

RECEIVABLES

FOR THE YEAR ENDED 30 JUNE	2021 \$'M	2020 \$'M	MOVEMENT
Gross customer receivables	2,111.6	1,182.0	78.6%
Unearned future income	(17.2)	(13.4)	28.4%
Provision for expected credit losses	(106.4)	(52.0)	104.6%
	1,988.0	1,116.6	78.0%

The Group's receivables portfolio increased 78.0% to \$1,988.0 million at 30 June 2021, up from \$1,116.6 million at 30 June 2020 due to the strong growth in underlying volumes during the financial year.

The Group reported a provision for expected credit losses of 5.0% of the gross receivables portfolio at 30 June 2021, compared with 4.4% at 30 June 2020. The increase in provision includes higher provisioning on the Group's BNPL products when compared to its line of credit products. Actual net bad debts for the Group are 3.53% of closing receivables at the end of financial year 2021 compared to 2.35% at the end of the previous financial year.

The Group wrote off \$74.5 million in bad debts (net of bad debt recoveries) during the financial year, up from \$27.8 million in the prior financial year.

Receivables generated by Zip's Australian-based consumer business increased 57.3% over the financial year, following year-on-year growth in transaction volumes, and comprise 85.0% of the receivables balance compared to 96.7% in the prior financial year.

The monthly repayment profile for the Australian book remains strong averaging at 15% (of the opening receivables balance repaid each month) during the financial year, which, equates to the book recycling approximately every 6-7 months.

The reported arrears rate (accounts over 60 days past due) was 1.78% of the gross receivables balance at the end of June 2021, compared with 1.33% at 30 June 2020 and bad debt write-offs (net of recoveries) were 1.82% (net amount written off as a percentage of closing receivables) at 30 June 2021, compared with 2.24% at 30 June 2020, and remain well below management's expectations of 2.5%, and market comparisons.

GUARANTEED RECEIVABLES

During the financial year, in response to Government-led initiatives to facilitate payment holidays and interest capitalisation for SMEs in hardship, Zip worked closely with its funding partner to agree an equivalent position which impacted cashflow's and income. The impact was immaterial to the Group.

Whilst in place, Zip was approved under the Australian Government Coronavirus SME Guarantee Scheme which provided a government guarantee for 50% of eligible new loans granted under the program, and the New Zealand Business Finance Guarantee program which provided a government guarantee for 80% of eligible new loans granted under the program.

The number and amount of new loans granted under both programs to 30 June 2021 was \$26 million.

CORPORATE ACTIVITY

Zip made a number of acquisitions and investments during the financial year as it delivers on its global expansion strategy.

QUADPAY

Following shareholder approval in August 2020, Zip completed the acquisition of US BNPL payment provider QuadPay Inc, acquiring the shares that it did not already own. On completion, Zip issued 118,776,189 new Zip Co Limited shares, and 10,480,369 options to acquire shares in Zip Co Limited to QuadPay Option holders. In accordance with the terms of the acquisition of QuadPay approved by Zip's shareholders, the number of shares issued to shareholders of QuadPay was equivalent to 23.3% of the issued share capital of Zip at completion on a non-diluted basis.

In accordance with the requirements of AASB 3 *Business Combinations* and AASB 13 *Fair Value Measurement*, the acquisition price was calculated based on Zip's share price on the date it obtained control of QuadPay Inc, being 31 August 2020. As the closing share price on 31 August 2020 was \$9.16, the acquisition price of the shares in QuadPay Inc that Zip did not already own was calculated as \$1,174.4 million comprising \$1.088.0 million in relation to the new shares issued, cash of \$1.1 million, \$63.9 million in relation to the 7,105,752 options issued to recipients that were not employees of QuadPay, and \$21.4 million relating to the value of replacement options provided to employees included as part of consideration.

Replacement options issued to employees were valued at \$30.2 million, and of the balance of \$8.8 million not included in consideration, \$4.0 million was expensed in the period since acquisition, and the balance of \$4.8 million will be expensed over the remaining vesting period. Zip will also record the estimated expense of the Tenure Consideration Shares and Performance Consideration Shares (as set out in Note 22 in this annual report) over the periods in which the recipients are forecast to achieve the agreed tenure and performance hurdles. An expense of \$102.7 million has been recorded in the financial year to 30 June 2021 in relation to these tenure and performance shares.

The directors do not consider that the fair value at the acquisition date of the equity instruments granted for the purchase of QuadPay Inc, as measured per AASB 13 *Fair Value Measurement*, is reflected in the subsequent equity value of the instruments granted or the underlying assets acquired, and accordingly in conjunction with independent valuers, Zip has determined that a Day 1 adjustment of \$415.9 million should be made to the carrying value of goodwill. The Day 1 adjustment was calculated using a share price of \$6.50 (compared to \$9.16 at acquisition date) following an assessment of the fair market value of Zip's shares based on a review of Zip's VWAP (volume-weighted average price) over various periods up to and including 31 August 2020.

As required by accounting standards, Zip revalued its pre-existing shareholding in QuadPay to reflect the acquisition price at 31 August 2020 of \$9.16, resulting in a revaluation gain of \$109.7 million.

The once off net adjustment relating to QuadPay Inc of \$306.2 million was included in the reported operating loss.

The Group has valued acquired intangibles arising from the acquisition of QuadPay in conjunction with independent valuers, and goodwill has been determined. The valuation resulted in acquired intangibles totalling \$253.7 million (\$187.7 million net of taxation) being recognised at the acquisition date. The Group has recorded goodwill of \$734.8 million in relation to the acquisition of QuadPay.

Following Zip's decision to rebrand globally, the Group has written off the value attributed to the QuadPay brand resulting in a write-off of \$42.6 million being reported in financial year 2021.

Directors' Report

Continued

URGE

Zip acquired Sydney based technology company Urge Holdings Pty Limited in October 2020 issuing 432,516 ordinary shares in Zip Co Limited. Urge helps shoppers find what they're looking for, driving increased sales, reach and exposure for its retail partners. The acquisition price was \$2.8 million, acquired intangibles have been valued at \$2.7 million, and goodwill of \$0.7 million has been recorded.

SPOTII

Zip acquired a 20% interest in Spotii, a leading tech enabled payments platform operating in the Middle East for \$3.1 million in December 2020. In May 2021, Zip announced its intention to acquire the remaining shares in Spotii that it did not already own for US\$16 million (circa \$21 million) subject to certain completion adjustments. The acquisition will be settled in new fully paid shares, cash, or a combination of both, at Zip's discretion, and is expected to complete in the first quarter of the financial year 2022.

TWISTO

In December 2020, Zip invested \$3.2 million to acquire a minority interest in Twisto Payments, the owner of Twisto, a cashflow management and payments app, with core markets of Poland and the Czech Republic. In the second half of the financial year 2021, Zip invested a further \$11.3 million in Twisto Payments, increasing its equity stake to 12.4%, and subsequently announced its intention to acquire the remaining shares in Twisto that it did not already own for approximately €89 million (circa \$140 million) subject to certain completion adjustments. The acquisition will be settled in new fully paid shares, cash, or a combination of both, at Zip's discretion, and is expected to complete in the second quarter of the financial year 2022.

TENDOPAY

Zip acquired a 25% interest in TendoPay during the financial year, a leading BNPL player in the Philippines, investing \$3.2 million.

PAYFLEX

Zip invested a further \$0.14 million in Payflex Pty Limited, Zip's associate in South Africa during in the financial year, taking Zip's equity interest to 26.25%.

CAPITAL MANAGEMENT

RECEIVABLES FUNDING FACILITIES

AUSTRALIAN FACILITIES	FACILITY LIMIT \$'M	DRAWN AT 30 JUNE 2021 \$'M
Zip Master Trust		
– Rated Note Series	1,235.0	1,235.0
– Variable Funding Note	513.7	145.4
2017-1 Trust	312.7	48.0
2017-2 Trust	70.0	47.0
Total	2,131.4	1,475.4

The Group had total facilities available of \$2,131.4 million available to fund its Australian consumer receivables at 30 June 2021, of which \$1,475.4 million was drawn (\$656.0 million undrawn and available). The facilities have not benefited from any of the Government initiatives to support debt capital markets in Australia.

During the financial year the Group completed two new rated note series (raising \$760.0 million) and the continued strong performance of the receivables portfolio led to a two notch ratings upgrade resulting in the weighted average margin for the second new series falling to 1.73%, compared to 2.80% in the first. Subject to market conditions, this reduction in weighted average margin will flow into future rated note series for both new series and replacements.

US FACILITY	FACILITY LIMIT \$'M (USD)	DRAWN AT 30 JUNE 2021 \$'M (USD)
AR2LLC	300.0	111.9

Zip has a facility totalling US\$300.0 million to fund its US consumer receivables drawn to US\$111.9 million at 30 June 2021. During the financial year the facility increased by US\$150.0 million and the weighted average margin on drawn facilities will reduce from August 2021.

SME FACILITIES	FACILITY LIMIT \$'M	DRAWN AT 30 JUNE 2021 \$'M
Zip Business		
- Capital	46.2	33.5
- Trade/Trade +	100.0	5.5
Total	146.2	39.0

The Group has funding facilities totalling \$46.2 million, with \$33.5 million drawn at 30 June 2021, to fund its Zip Business Capital product, and facilities totalling \$100.0 million, \$5.5 million drawn, to fund its new Zip Business Trade and Trade + products.

CONVERTIBLE NOTES AND WARRANTS

Following shareholder approval at the EGM in August 2020, Zip raised \$100.0 million (\$96.8 million net of transaction costs) through the issue of convertible notes, and issued 19,365,208 warrants (equating to \$100.0 million in cash on exercise) in connection with the issue of the convertible notes, to CVI Investments, Inc.

The convertible notes have a 5 year maturity, and a fixed coupon of \$0.75 million payable each 6 months. Under the terms of the notes, every 6 months, 10% of the initial principal amount (i.e. \$10.0 million) and accrued interest amounts (i.e. aggregate of \$10.75 million) can, at the election of the Noteholder be converted into Shares in Zip at a price equal to 93% of the then current market price subject to the ceiling price of \$5.5328 and a floor price of \$1.8443, or deferred until the next instalment date.

The Noteholder also holds the option to convert the convertible notes into shares in Zip after the occurrence of certain conversion events at the then prevailing conversion price, with an initial conversion price of \$5.5328, a 50% premium to the 1-day VWAP of Zip's shares on 29 May 2020. The semi-annual fixed coupon of \$0.75 million on the convertible notes can be paid in shares in Zip issued at the then current market price (provided certain conditions are met) or be settled in cash.

The conversion price (other than for the semi-annual instalments) adjusts for certain prescribed terms and dilutive events and resets semi-annually to a price equal to 93% of the prevailing current market price subject to a maximum ceiling price of \$5.5328 and a minimum floor price of \$1.8443, a 50% discount to the VWAP of Zip's Shares on 29 May 2020.

The warrants were issued for nil consideration, with a 3 year exercise period, and an exercise price being the lower of \$5.1639 and the price of any equity securities issued (excluding issues for prescribed business as usual and agreed strategic transactions) in the exercise period. The exercise price represented a 40% premium to the 1-day volume weighted average price of Zip's shares on 29 May 2020.

In conjunction with independent valuers Zip fair valued the derivative embedded in the convertible note agreement, and the warrants, with the residual value being the underlying debt component of the convertible note, at the time the respective agreements were struck in May 2020. The embedded derivative and the warrants have also been revalued at 30 June 2021 in accordance with AASB 9 *Financial Instruments*.

Following the revaluation at 30 June 2021, Zip has reported a financial liability in relation to the underlying debt component of the convertible note of \$65.3 million, and the embedded derivative and warrants issued have been valued at fair values of \$60.6 million and \$60.3 million respectively using the Black Scholes option valuation model. The fair values have been based on a closing share price at 30 June 2021 of \$7.57, volatility of 45%, and a risk free rate of 0.7% for the embedded derivative, and 0.1% for the warrants. The different risk free rates reflecting the different expiry dates of the instruments.

Directors' Report

Continued

As a result, Zip has reported a fair value loss of \$82.0 million, being the difference in fair value of the embedded derivative and the warrants between the date of issue and 30 June 2021, in accordance with the requirements of AASB 9 based on the details outlined above.

In April 2021, Zip issued \$400.0 million zero coupon senior unsecured convertible notes (Senior Convertible Notes). The Senior Convertible Notes are listed on the Singapore Securities Trading Exchange (SGX-ST), have a 7 year maturity with an option for investors to put the notes back to Zip after 4 years at 109.36% of the principal amount. At maturity, note holders have the option of converting the notes into Zip's ordinary shares at a share price of \$12.39 (adjusted in accordance with standard anti-dilutive provisions) or redeeming the notes at 116.96% of the principal amount.

The Senior Convertible Notes contains two components, a debt contract and a conversion feature. The debt contract is classified as a financial liability measured at amortised cost and the conversion feature is classified as equity in accordance with AASB 132. On initial recognition, the fair value of the debt component was recorded at \$283.8 million (\$279.7 million net of transaction costs), being the contractual cash flows discounted at an interest rate of 7.4% (7.6% net of transaction costs) that would apply to a note without a conversion feature. The equity component of the conversion feature was recorded at \$116.2 million (\$114.5 million net of transaction costs), being the fair value of the convertible notes as a whole (net of transaction costs) less the fair value of the debt component.

Zip has reported a financial liability in relation to the underlying debt component of the Senior Convertible Notes of \$283.7 million at 30 June 2021, comprising the value of debt component of \$279.7 million at initial recognition and accrued effective interest of \$4.0 million. The equity component is reported at \$114.5 million at 30 June 2021, in accordance with AASB 9 under which Zip is not required to revalue the conversion feature recorded as equity at each reporting date.

EQUITY CAPITAL

During the financial year, the Group raised a total of \$176.7 million (\$173.8 million net of costs) in equity, from new and existing retail, institutional, sophisticated and professional investors. Funds were raised to support Zip's growth in the US, expansion in the UK, entry into new markets, and to invest in Zip's product range in Australia, including the further development of Zip's offering to small businesses.

CHANGE IN THE STATE OF AFFAIRS

Other than detailed in this report, no significant changes in the state of affairs of the consolidated entity occurred during the financial year.

FUTURE DEVELOPMENTS

In future financial years, Zip will increase its investment in growth across both new and existing markets, further develop its product offering to attract new merchants and consumers to its platforms, and introduce new products to provide additional benefits to its customers.

POST BALANCE DATE EVENTS

Subsequent to the year end, the consolidated entity announced its intention to acquire the remaining 73.75% interest in Payflex that Zip does not already own, comprising the Upfront Consideration, BEE Holdback Amount and Deferred Consideration. The implied maximum enterprise value is ZAR \$250 million (circa \$22.9 million).

The Upfront Consideration of ZAR \$103.4 million (circa \$9.5 million) is payable in new fully paid ordinary shares in Zip, subject to a maximum issuance of 1,477,686 shares, Zip's shares issued in settlement of the Upfront Consideration will be subject to voluntary escrow arrangements.

In addition, Zip has agreed to make a potential cash payment of up to a maximum of ZAR \$7.2 million (circa \$0.7 million), which Zip has agreed to pay generally within 12 months from completion, subject to certain agreed conditions being met in connection with Zip exploring the merit of "empowering" Payflex in accordance with South African legislation, policy and good corporate governance practice regarding 'black economic empowerment' investment.

Deferred Consideration of up to ZAR \$73.8 million (circa \$6.8 million) is payable subject to satisfaction of prescribed performance milestones, which are based on growth targets relating to the achievement of total transaction values and net transaction margins for the 12-month 'performance period' ending 30 June 2022. Deferred Consideration is payable by the issue of up to 1,053,608 Zip shares. Zip shares issued in settlement of the Deferred Consideration will be subject to voluntary escrow arrangements. Payflex's founder and CEO will be eligible to earn an additional Performance Incentive, subject to satisfaction of prescribed performance milestones relating to the achievement of targets for total transaction values and net transaction margins, and also dependent on continued employment at the date of satisfaction of the relevant performance milestones (other than in certain prescribed 'good leaver' circumstances).

The acquisition is subject to customary conditions, including South African Reserve Bank (SARB) approval and the completion is anticipated to occur during the quarter ending 31 March 2022.

The financial effects of this transaction have not been recognised at 30 June 2021.

Zip successfully completed the fourth rated note issuance within the Zip Master Trust on 10 September 2021, being the Zip Master Trust Series 2021-2, raising \$650 million from debt investors. Of the total raised, \$500 million was used to repay the investors in the Zip Master Trust Series 2019-1 on maturity.

On 22 September 2021, Zip agreed a strategic minority investment in ZestMoney, a leading Indian BNPL operator. Zip will invest US\$50.0m (\$67.7m) to subscribe for Series C Preference Shares in ZestMoney, and has also negotiated favoured terms to increase its holdings over time, specific reserved matters and a board seat as part of the investment.

To the date of the release of this report, there have been no other material items, transactions or events subsequent to 30 June 2021 which relate to conditions existing at that date and which require comment or adjustment to the figures dealt with in this report.

ENVIRONMENTAL REGULATION

The Group is not subject to any significant environmental regulation under a law of the Commonwealth, State or Territory law of Australia, or in any of the other jurisdictions that the Group currently, or is soon to, have a presence in.

COMPOSITION OF THE BOARD ON 30 JUNE 2021

Name:	Diane Smith-Gander AO
Title:	Non-Executive Chair
Qualifications:	BEc, MBA, FAICD, FGIA, Hon. DEc, FAIM, GAICD
Term:	Non-Executive Director and Chair of the Board appointed on 1 February 2021
Independent:	Yes
Committees:	Member of each of the Audit & Risk Committee and Remuneration, People & Culture Committee and Chair of the Nominations Committee.
Directorships:	Chair of Zip Co Limited, Chair of DDH1 Limited, Chair of Safe Work Australia, Chair of the Committee for Economic Development of Australia, Director of AGL Energy Limited, Keystart Loans Group and HBF Health Limited.
Experience:	Diane has extensive Australian and international experience in banking and finance, technology, and strategic and management consulting. This includes as a former partner at McKinsey & Company, and Group Executive IT and Operations, Westpac Banking Corporation.
Former Directorships (last 3 years):	Wesfarmers Limited (August 2009 – 12 November 2020)
Interests in shares:	2,500

Directors' Report

Continued

Name:	Larry Diamond
Title:	Managing Director and Chief Executive Officer
Qualifications:	BTech(IT), MCom, MBA, CA
Term:	Executive Director appointed on 11 September 2015
Independent:	No
Committees:	None
Directorships:	None
Experience:	<p>Larry co-founded Zip with Peter Gray in 2013 with the goal of disrupting the broken credit card model, using technology to create a transparent, fairer and more flexible alternative.</p> <p>Larry has lead Zip from fintech start-up to one of Australia's leading digital payment tech companies. Today Zip is an ASX200 listed company with over seven million customers globally and a presence in 12 international markets.</p> <p>Prior to Zip Larry spent 12 years working in retail, technology and investment banking, where he first saw the opportunity to digitise financial services with innovative products that bring customers and merchants together. His career included two years at Deutsche Bank as a Senior Associate within the Corporate Finance team and three years as an Investment Banking Manager at Macquarie Capital.</p>
Interests in shares:	54,528,597
Former Directorships (last 3 years):	None
Interest in performance rights:	630,252

Name:	Peter Gray
Title:	Executive Director and Chief Operating Officer
Qualifications:	Diploma of Finance
Term:	Executive Director appointed on 11 September 2015
Independent:	No
Committees:	None
Directorships:	None
Experience:	<p>Peter co-founded Zip with Larry Diamond in 2013. Under his co-leadership, the company has grown to become a truly international BNPL business.</p> <p>An operations and consumer credit expert, Peter has underwritten over 3 million customers, \$7 billion in transaction volume and \$2 billion in loan receivables in Australia alone since the company was founded. Peter was the chief architect in developing Zip's market-leading credit and decisioning technology platform and the launch of Zip's Master Trust receivables funding program.</p> <p>Peter oversees Zip's global operations including credit and risk management. Peter is a respected Australian BNPL authority and commentator, with over 25 years' experience spanning regulated consumer credit, operations, risk, legal, compliance and publicly listed companies.</p>
Interests in shares:	17,572,858
Former Directorships (last 3 years):	None
Interest in performance rights:	629,439

Name:	John Batistich
Title:	Non-Executive Director
Qualifications:	MM, BBus, GAICD
Term:	Non-Executive Director appointed on 6 February 2018
Independent:	Yes
Committees:	Chair of the Remuneration, People & Culture Committee and Member of the Nominations Committee, and the Audit & Risk Committee.
Directorships:	Chairman of Foodco Group Pty Limited, Foodco Holdings Pty Ltd, Jahnus Pty Limited, Jamaica Blue Pty Limited, Muffin Break Pty Ltd, and Insight Tools Pty Limited.
Experience:	John is a highly-experienced growth leader who brings marketing, digital and human resources skills to the Board. John has over 24 years of cross sector experience in Research, Marketing, Digital and General Management with blue chip companies like Westfield Group, Interbrand, Wrigley Company, Pepsico Foods, Kimberley Clark and Lion Nathan.
Former Directorships (last 3 years):	None
Interests in shares:	363,561

Name:	Pippa Downes
Title:	Non-Executive Director
Qualifications:	MAppFin, BSc BusAdmin, GAICD
Term:	Non-Executive Director appointed on 1 October 2020
Independent:	Yes
Committees:	Chair of the Audit & Risk Committee, Member of the Remuneration, People & Culture Committee and Member of the Nominations Committee.
Directorships:	Ingenia Communities RE Limited, Ingenia Communities Holdings Limited, ALE Property Group, ATI Global Limited and a Commissioner of Sport Australia.
Experience:	Pippa is a professional company director who has held executive and non – executive roles across listed, not-for-profit and government enterprises. She brings significant experience in international banking and capital markets to the Board as well as broad industry knowledge across financial services, technology, infrastructure and property. She is a Commissioner of Sport Australia and a member of the Australian Super Investment Committee. Prior executive roles include Managing Director and Equity Partner at Goldman Sachs JB Were.
Former Directorships (last 3 years):	None
Interests in shares:	2,500

Former Directorships quoted above are Directorships held in the last 3 years for listed entities only and exclude Directorships of all other types of entities, unless otherwise stated.

Directors' Report

Continued

COMPANY SECRETARY

David Franks is a Fellow of the Governance Institute of Australia, Fellow of the Financial Services Institute of Australasia and a Chartered Accountant with over 20 years' experience in company secretarial, finance and accounting. Mr Franks has been CFO, Company Secretary and/or Director for numerous ASX listed and unlisted public and private companies in a range of industries, including the company secretary of Top 200 and 300 ASX listed entities.

On 14 September 2021, the Company appointed Tai Minh Phan as joint company Secretary. Mr Phan is an experienced lawyer, Company Secretary, corporate governance and compliance professional. He has worked with Boards and executive management for ASX listed (Westpac, HT&E Limited, and Yancoal Ltd) and unlisted companies. He has experience in the IPO listing process for the ASX, has been appointed an external consultant for AUSTRAC and as the Head of Asia-Pac Compliance for Travelex and Munich Re. Mr Phan's experience covers a range of industries including financial services, mining, information technology and legal (both private practice and in-house).

MEETINGS OF DIRECTORS

The number of meetings of the Company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2021, and the number of meetings attended by each Director were:

	BOARD DIRECTORS		AUDIT AND RISK COMMITTEE		REMUNERATION & NOMINATION COMMITTEE	
	HELD	ATTENDED	HELD	ATTENDED	HELD	ATTENDED
Diane Smith-Gander AO	6	6	2	2	2	2
Larry Diamond	12	12	NM	NM	NM	NM
Peter Gray	12	12	NM	NM	NM	NM
John Batistich	12	12	8	8	2	2
Pippa Downes	9	9	5	5	2	2
Philip Crutchfield	7	7	6	5	N/A	N/A
Dianne Challenor	3	3	3	2	N/A	N/A

Note: NM = not a member of the committee.

Held represents the number of meetings held during the time a Director held office or was a member of the relevant committee.

REMUNERATION REPORT

LETTER FROM THE CHAIR OF THE REMUNERATION, PEOPLE AND CULTURE COMMITTEE

On behalf of the Board of Directors, I am pleased to present the audited Remuneration Report for the year ended 30 June 2021.

FY21 was a period of continued high growth and strong investment in our people, platforms and products to serve our Merchants and end Customers to drive performance. Zip accelerated its global position with the transformative acquisition of QuadPay in the US and established a range of new global markets. Zip now operates in 12 markets, across five continents, with the official additions of the UK, Canada and Mexico, plus regional market entry points established in Europe, South Africa, the Middle East and Southeast Asia.

Through FY21 Zip continued to invest in growth whilst adapting to a changing global environment with continuing health and economic challenges. Throughout this period, Zip's leadership continued to focus on our purpose, people, product, partnerships and performance. The Board acknowledges the way our employees have driven growth and responded to these challenges, guided by our standards, to deliver strong financial and non-financial performance.

Zip achieved record Transaction Volumes of \$5.8 billion, up 176% on FY20, record Revenue of \$397.5 million, up 147% on FY20 and record Customer numbers which increased to 7.3 million, up 248% on FY20. Zip maintained strong unit economics, generated a Cash Net Transaction Margin of 3.3%¹ and incurred a Cash EBTDA loss of \$28.6 million¹ as the Group invested in global growth for long-term value.

Zip delivered market leading innovations, enabling the Group's products to be used anywhere online or instore with new products like Tap & Zip, Chrome Extensions, Subscriptions and Rewards that improve the Merchant and end Customer experience.

Zip continued to invest in the growth and development of our people resulting in industry leading employee engagement scores at 89% for Australia and 82% for the US. The Group implemented a range of progressive policies that supported flexibility and well-being including leave for bereavement and family domestic violence, and provided COVID-19 vaccine support, while also executing on commitments to our communities and the environment. Further, we strengthened our Board, appointing two independent directors, Diane Smith-Gander AO as Chair and Pippa Downes as Chair Audit and Risk.

Zip improved the Group's debt funding arrangements including achieving AAA rating on the senior notes in our public rated securitisation issuances, and the expansion of our US warehouse (Goldman Sachs facility). Additionally, Zip completed several capital raises to support our global growth strategy. These raises included \$400 million in zero coupon Senior Convertible Notes, \$176.7 million through an oversubscribed placement and Share Purchase Plan, and a \$100 million convertible note.

This report forms part of the Company's FY21 Director's Report and sets out Zip's remuneration arrangements for Key Management Personnel (KMP) in accordance with the requirements of the *Corporations Act 2001* and its regulations. KMP are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including all Directors.

The FY21 remuneration outcomes reflect the intended operation of the remuneration framework which is designed to manage a range of performance and risk outcomes, and where appropriate, apply Board discretion.

¹ Non-IFRS information. Reported Gross Profit adjusted for the movement in expected credit losses, and amortised finance costs expressed as a percentage of underlying volumes. Reported EBTDA adjusted for the movement in expected credit losses, amortised finance costs and unrealised foreign exchange movements.

Directors' Report

Continued

The FY21 remuneration report features a range of enhancements in response to Stakeholder feedback, including Investors and Proxy Advisors. A balanced scorecard of financial and non-financial measures for the Short-Term Incentive (STI), outlining threshold and maximum targets has been detailed. Rationale for the Long-Term Equity (LTE) as a component of Fixed Remuneration has been included, to preserve cash for growth and supplement modest cash based Fixed Remuneration. The retesting points for the first two tranches for any future Long-Term Incentive (LTI) have been removed. Further, provisions for the cessation of employment, negative discretion and change of control have been added along with a shareholding policy for Non-Executive Directors.

The Board seeks to develop and implement a fair, responsible and competitive remuneration framework that rewards decision making and performance that aligns with the long-term interests of Shareholders and with Zip's standards of behaviour and risk appetite.

The Board believes the remuneration framework to be appropriate and effective to attract and retain high quality KMP and Executives to operate, manage and drive global performance.

We invite you to read the Remuneration report and welcome your feedback.



John Batistich
Chair, Remuneration, People and Culture Committee

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1. REMUNERATION OVERVIEW FOR FY21

1.1 REMUNERATION PRINCIPLES

Zip's remuneration strategy is designed to attract and retain employees by rewarding them for achieving high performance and delivering long-term results for our Customers and Shareholders whilst adhering to sound governance practices.

Zip's remuneration strategy is to attract and motivate the best talent to drive a high performance culture that delivers on our business strategy and contributes to sustainable long-term returns for Shareholders. It is designed to ensure that there is strong alignment between remuneration and performance. This strategy is underpinned by the following principles:

- **Strategic Alignment:** Provide clear alignment of remuneration with strategic objectives and Shareholder value;
- **Competitive:** Provide market competitive remuneration to attract quality global talent;
- **Simple and Transparent:** Implement remuneration policies that are simple, transparent and well understood;
- **Performance Based:** Support merit-based remuneration achievement across a diverse and inclusive workforce;
- **Enhances Culture:** Support appropriate risk culture and employee conduct aligned to our standards;
- **Retention:** Retain high quality talent across global markets; and
- **Sustainable Value:** Reward sustainable outperformance.

1.2 ZIP REMUNERATION FRAMEWORK

The remuneration framework is guided by the key principles outlined above. With an increasing global view, the Board seeks to drive strategic alignment, attract quality talent, create a simple and transparent design, ensure that remuneration supports high performance, strengthens culture (including risk management), retains talent and drives sustainable value for Shareholders.

The Board engaged independent advisors during the year to advise on appropriate remuneration levels for the Executive Directors and other Senior Executives in line with our objectives in the context of the global market. Table 1 outlines Zip's remuneration structure for FY21 for the Executive KMP (i.e. CEO, COO and CFO).

Directors' Report

Continued

TABLE 1 — ZIP REMUNERATION FRAMEWORK SUMMARY

REMUNERATION COMPONENT	FIXED REMUNERATION		AT RISK REMUNERATION	
	TOTAL FIXED REMUNERATION (TFR) — CASH	LONG-TERM EQUITY (LTE) — FIXED EQUITY	AT RISK SHORT-TERM INCENTIVE (STI)	AT RISK LONG-TERM INCENTIVE (LTI)
Purpose	Attract and retain Executives, considering the size and complexity of the role, individual responsibilities, experience and skills in the context of the external market.	Provides Zip with the best opportunity to retain senior leaders and attract high quality talent. The LTE also compensates for the more conservative positioning of Zip's TFR.	STI rewards for performance for the current year and is based on Company performance outcomes.	LTI ensures alignment to long-term overall Company performance in line with long-term shareholder returns.
Delivery	Base salary (including any salary sacrifice) and superannuation.	Performance Rights with equal vesting over 4 years (25% per year).	Ordinary shares with 50% subject to a 12 month restriction period for Executive KMP.	Performance rights vesting after three years, subject to achieving performance hurdles.
Approach	Target TFR is positioned conservatively against comparable benchmarks.	Subject to continued employment and individual performance over the vesting period.	Measures Group results including Financial, Customer and People measures.	LTI performance measures are based upon growth hurdles for Total Shareholder Return (TSR) being achieved.

Remuneration at Zip is delivered in cash and equity vesting over a number of years. Figure 1 outlines when the different components of remuneration are awarded and when they vest (for the at-risk components).

FIGURE 1 — REMUNERATION DELIVERY PROFILE

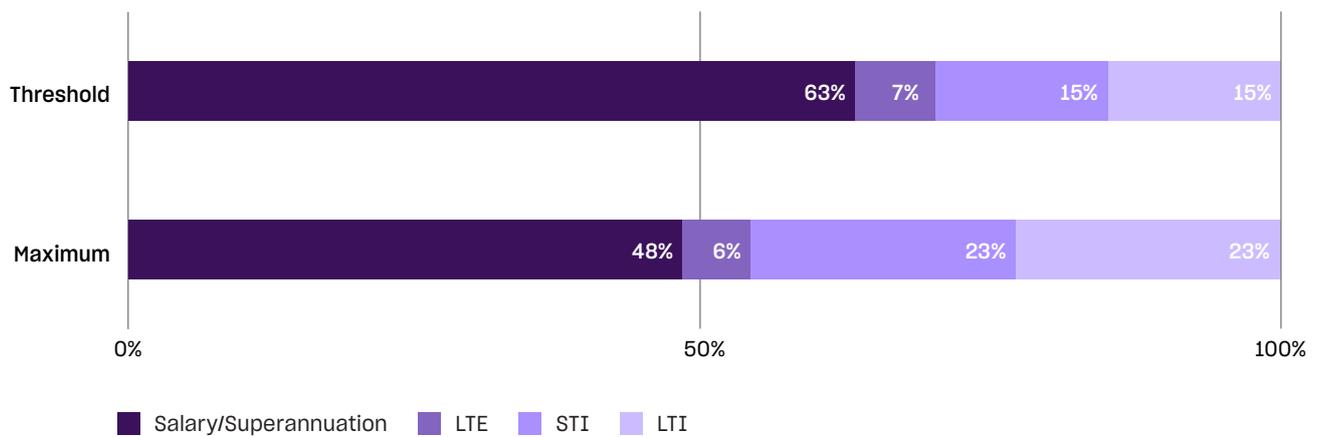
TYPE	COMPONENT	INSTRUMENT	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
Fixed	Fixed Salary (including salary sacrifice and superannuation)	Salary (including any salary sacrifice) and superannuation	Paid during FY				
	LTE	Performance rights subject to retention	Issued during FY	25% vests	25% vests	25% vests	25% vests
At-Risk	STI	Ordinary Shares subject to performance against scorecard	Awarded at the end of the performance FY with 50% restricted for 12 months	50% of the shares are restricted for 12 months			
	LTI	Performance rights subject to TSR performance hurdles	Granted during the FY	LTI performance period		LTI vests subject to TSR performance	

The first LTI plan was a three year initial upfront offer with the first assessment in FY22 for Executive KMP.

1.3 PLANNED REMUNERATION MIX

Figure 2 shows the remuneration mix for the Executive KMP at both the threshold and maximum level of performance. Note incentive opportunities are expressed as a percentage of base salary, which is the same for the Executive KMP.

FIGURE 2 — REMUNERATION MIX AT THRESHOLD AND MAXIMUM



2. KEY GOVERNANCE CONSIDERATIONS FOR FY21

The Board undertakes regular reviews of the remuneration framework to ensure appropriateness giving consideration to the business strategy and the changing global competition for talent, particularly amongst high demand technology, engineering, product and data analytics roles. Zip’s expansion into the US and other global markets has changed the size, scope and complexity for key roles. Further, significant changes in the market capitalisation of the Company have changed the market comparator set. Market benchmarking (with the assistance of independent consultants) was implemented to ensure that the remuneration framework remains fair and competitive against the Companies Zip competes for global talent.

During FY21 the Board responded to feedback from stakeholders, including investors and Proxy Advisors, making enhancements to the remuneration framework and its reporting. These changes include:

- Board Independence:** The Board appointed two new independent Non-Executive Directors, Diane Smith-Gander AO as Chair and Pippa Downes through FY21. The Board consists of three Independent Non-Executive Directors complementing the skills of the two Executive Directors and Co-Founders, Larry Diamond and Peter Gray. Given Zip’s strategic focus on the US market, the Board will seek to appoint two US based independent Non-Executive Directors from FY22.
- LTE considered a part of Fixed Remuneration:** LTEs (i.e. granting of performance rights that are subject only to continued service and individual performance) are common amongst Zip’s comparator set in the US (referred to as RSUs) but less common in the Australian market. The performance rights approved at the 2020 Annual General Meeting (AGM), and granted to the Executive KMP in March 2021 were issued as the LTE plan, not the LTI. This plan is designed to supplement the modest cash fixed remuneration for the Executive KMP which is sitting well below the median of Zip’s market comparator set. This allows Zip to conserve cash while at the same time attracting and retaining talent. Therefore, we see LTE as part of Fixed Remuneration helping to offset modest Fixed salary remuneration for Executive KMP.
- Add detail on STI Scorecard:** The STI plan has been detailed covering performance against key financial and non-financial measures. As a result, a new balanced scorecard has been introduced including financial, customer and people measures with threshold and maximum targets, improving the disclosures in this report.

Directors' Report

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- **Maintain LTI focus on TSR:** The LTI measures the Company's performance on Total Shareholder Return (TSR) to align Executive KMP and Shareholder's long-term interests. We have considered the common market practice of using two metrics: normally a version of TSR and Earnings Per Share (EPS), but consider Zip should use the one Absolute TSR (ATSR) metric. Due to Zip's strategy to drive global growth and reinvestment in the business, EPS is not a suitable measure. The Board has considered using a relative TSR measure however as the ATSR hurdles are significant (a minimum annual TSR of 15% is required before any rights vest) the Board feels that this mitigates any issues of gains or losses due to general market fluctuations.
- **Remove future LTI Retesting:** The practice of retesting in the LTI plan which allows for the first two tranches to be tested again at the time the third tranche is measured will be removed going forward. This will mean that if performance falls below the threshold level of performance in years 3 or 4 all of the performance rights eligible to vest at those points will automatically lapse. The Board retains full discretion over vesting to ensure alignment of any rewards with performance.
- **Increase LTI for Executive KMP:** After assessing the conservative Executive remuneration packages against the global market, the Board has elected to increase the maximum LTI opportunity from 50% to 150% for the CEO and COO, and from 50% to 100% for the CFO, of base salary for FY22. The LTI will continue to be measured against long-term TSR performance, directly aligning any reward with Shareholder's long-term interest. Any grants to be made to the two Executive Directors will be included as resolutions at the 2021 AGM.
- **Add Leaver Policy:** The Board has also reviewed the leaver policies included in Zip's Employee Incentive Plan (which covers all employee incentive plans) and has elected to update these terms to align with market practice. As a result for those employees deemed good leavers, the treatment of unvested rights will be at the discretion of the Board (subject to applicable laws). The Board's intention is that rights will be pro-rated to time served in employment and left to be tested and vest as per the original vesting schedule and conditions (excluding LTE). For Bad Leavers during the performance period, all unvested rights and vested but not exercised rights will lapse unless the Board determines otherwise.
- **Add Negative Discretion:** Malus and clawback provisions have been detailed to allow the Board to lapse unvested awards or recoup any vested or paid awards in situations such as where a participant has engaged in serious misconduct, there is a material misstatement in the Company's financial statements or the employee causes reputational damage to Zip.
- **Add Change of Control:** A provision has been added where in the event of a Change of Control, the Board has the discretion to determine the treatment of all unvested rights (to be exercised consistently with the ASX Listing Rules).
- **Add a Non-Executive Director Shareholding Policy:** In order to ensure that the Non-Executive Directors are aligned to Shareholders' interests, a new shareholding policy will be introduced requiring Directors to hold a minimum number of shares equal in value (at cost) to their base fee within three years of the policy being introduced (see section 8 of this Report for detail on the shareholdings of the KMP). A similar policy was considered for Executive Directors but the Board decided that it was unnecessary given that these Executives already hold considerable shareholdings in the Company.

3. LIST OF KEY MANAGEMENT PERSONNEL FOR FY21

This report covers Directors and Executives who are considered to be Key Management Personnel (KMP) who have the authority and responsibility for planning, directing and controlling the activities of the Company. The table below identifies the KMP for Zip.

TABLE 2 – LIST OF KMP FOR FY21

NAME	ROLE	APPOINTED	CEASED	COMMITTEE MEMBERSHIP		
				AUDIT AND RISK	REMUN-ERATION, PEOPLE AND CULTURE	NOMINATIONS
Diane Smith-Gander AO	Independent Non-Executive Chair	1/2/21	n/a	Y	Y	C
John Batistich ¹	Independent Non-Executive Director	3/9/18	n/a	Y	C	Y
Pippa Downes	Independent Non-Executive Director	1/10/20	n/a	C	Y	Y
Larry Diamond	Managing Director and Chief Executive Officer	1/7/16	n/a			
Peter Gray	Executive Director and Global Chief Operating Officer	1/7/16	n/a			
Martin Brooke	Chief Financial Officer	9/1/17	n/a			
Philip Crutchfield ²	Independent Non-Executive Chair/Director	14/12/15	2/3/21	Y	Y	
Dianne Challenor ³	Non-Executive Director	1/2/18	1/10/20	Y	Y	

C= Chair of Committee. Y = Member of Committee.

1. John Batistich was the chair of the Audit and Risk committee before the appointment of Pippa Downes on 1 October 2020.
2. Philip Crutchfield was Non-Executive Chair until 31 January 2021 when he stepped down as Chair upon the appointment of Diane Smith-Gander AO as Chair and ceased to be a KMP on 2 March 2021.
3. Diane Challenor was a Westpac Nominee Non-Executive Director.

Directors' Report

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4. PERFORMANCE OUTCOMES FOR FY21

4.1 GROUP PERFORMANCE

Zip generated extraordinary growth through FY21 and continued to invest to create long-term value. Zip achieved record Transaction Volumes of \$5.8 billion, up 176% on FY20, Revenue of \$397.5 million, up 147% on FY20 and Customer numbers increased to 7.3 million, up 248% on FY20. Zip maintained strong unit economics, generated a Cash Net Transaction Margin of 3.3% and incurred a Cash EBTDA loss for FY21 of \$28.6 million as the Company invested in global growth.

Zip delivered strong financial, customer and people results in FY21 whilst delivering a range of new product innovations and strategic partnerships. As shown in Table 3 below, the Group has generated extraordinary growth over the period which has contributed to a significant increase in the Company's share price.

TABLE 3 — STATUTORY PERFORMANCE INDICATORS

YEAR ENDING 30 JUNE (\$)	FY21	FY20	FY19	FY18	FY17
Revenue (\$'000)	397,519	161,001	84,231	40,407	17,002
Gross Receivables	2,111,580	1,181,980	682,556	316,741	152,039
Share Price High (\$)	14.53	6.97	3.98	1.27	0.94
Share Price Low (\$)	4.96	1.05	0.84	0.56	0.60
Share Price Open (\$)	5.23	3.31	0.87	0.65	0.62
Share Price Close (\$)	7.57	5.23	3.31	0.87	0.65
Dividends paid in year	-	-	-	-	-

4.2 FIXED REMUNERATION CHANGES – SALARY

External benchmarking undertaken during the year found that the fixed remuneration for the Executive KMP was materially lower than other companies of the market comparator set. As a result, increases were made to bring the Executives closer in line with the market. Importantly, even including these increases, the Executives KMP are still placed below their peers at both an Australian and Global level. Table 4 below shows the increases made during the year.

TABLE 4 — FIXED (SALARY & SUPERANNUATION) REMUNERATION CHANGES DURING FY21

POSITION	NAME	FIXED REMUNERATION AT THE END OF FY20	FIXED REMUNERATION AT THE END OF FY21	% CHANGE	POSITION VS COMPARATOR SET POST CHANGE
Managing Director and Chief Executive Officer	Larry Diamond	\$453,685	\$520,000	14.6%	Below Median
Executive Director and Global Chief Operating Officer	Peter Gray	\$427,001	\$500,000	17.1%	Below Median
Chief Financial Officer	Martin Brooke	\$344,012	\$400,000	16.3%	Below Median

Note these increases do not include the equity component of Fixed Remuneration (LTE).

4.3 FY21 LTE GRANTS

Grants were made to the Executive KMP under the LTE plan on 8 March 2021. The grants for the two Executive Directors were approved by shareholders at the AGM held on 30 November 2020. The first eligible vesting date will be in March 2022.

TABLE 5 — LTE GRANTED IN FY21

NAME	LTE OPPORTUNITY \$	MAXIMUM LTE OPPORTUNITY AS A % OF BASE SALARY	NUMBER OF RIGHTS GRANTED	VESTING DATES
Larry Diamond Executive Director and CEO			5,063	8 March 2022
			5,063	8 March 2023
			5,063	8 March 2024
	\$249,153	50%	5,063	8 March 2025
Peter Gray Executive Director and Global COO			4,860	8 March 2022
			4,860	8 March 2023
			4,860	8 March 2024
	\$239,153	50%	4,859	8 March 2025
Martin Brooke CFO			3,844	8 March 2022
			3,844	8 March 2023
			3,844	8 March 2024
	\$189,153	50%	3,843	8 March 2025

4.4 FY21 STI OUTCOMES

The STI, rewards financial and non-financial performance consistent with Zip's strategy over the short-term. The STI is weighted at up to 50% of base cash salary and is delivered in Ordinary Shares at the end of the financial year. The number of Ordinary Shares is determined by dividing the assessed bonus (in \$) by the prevailing share price (measured as a 10 day VWAP) at the time the final award is determined.

For Executive KMP 100% of the award is based upon on achievement of the Group's balanced scorecard including financial, customer and people measures with no individual measures. 50% of the STI award is deferred and delivered in shares that vest in one year. All deferred STI awards are subject to the Board discretion and malus and clawback provisions.

For FY21, a target was approved by the Board for each objective in the balanced scorecard. The policy allows for a threshold and maximum pay-out. Meeting the Maximum performance standard will earn 100% of the award whilst the Threshold will attract a reward at 50% of the award. Any result above the Threshold, but below the Maximum, will be rewarded on a pro-rata basis. Any result below the Threshold will not qualify for any reward on that measure.

For FY21 Company performance was measured via an updated scorecard across financial measures focused on Total Transaction Volume (TTV) and Cash Net Transaction Margin (NTM), valued at 30% of the award each. Customer measures focused on Customer Accounts and Customer Net Promoter Score (NPS), valued at 15% of the award each. People measures focused on Employee Engagement, valued at 10% of the award. The table below shows the outcome against the FY21 scorecard measures.

Directors' Report

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TABLE 6 – STI SCORECARD OUTCOME IN FY21

STRATEGIC ALIGNMENT	MEASURE	WEIGHTING	VESTING OUTCOME/OUTCOME COMMENTARY
Financial	Total Transaction Volume (TTV)	30%	<p>Total Transaction Volume of \$5.8b up 176% on FY20 exceeded Threshold and achieved 85% of Maximum</p>
	Cash Net Transaction Margin (NTM)	30%	<p>Cash Net Transaction Margin exceeded Threshold and achieved 90% of Maximum</p>
Customer	Customer Accounts	15%	<p>Customer numbers increased to 7.3m, up 248% on FY20 exceeded Threshold and achieved 80% of Maximum</p>
	Customer Engagement (NPS)	15%	<p>Customer NPS exceeded Threshold and achieved 80% of Maximum</p>
People	Employee Engagement	10%	<p>Employee Engagement was measured independently by Culture Amp and exceeded Threshold and achieved 89% of Maximum</p>
FY21 STI		85% Outcome	

Vesting bar chart is a guide only and not to scale.

The maximum STI opportunity as a percentage of base salary (excluding superannuation) is 50%. The weighted vesting outcome across the STI balanced scorecard was awarded at 85%. Shares granted to Executive KMP under the STI Plan for the financial year to 30 June 2021 totalled \$575,840 based on 85% achievement of the Company balanced scorecard for FY21.

Amounts awarded were as follows:

TABLE 7 — STI OUTCOMES IN FY21

NAME	MAXIMUM STI \$ OPPORTUNITY	MAXIMUM STI OPPORTUNITY AS A % OF BASE SALARY	% OF MAXIMUM STI AWARDED	VALUE STI AWARDED \$	% OF MAXIMUM STI FORFEITED
Larry Diamond Executive Director and CEO	\$249,153	50%	85%	\$211,780	15%
Peter Gray Executive Director and Global COO	\$239,153	50%	85%	\$203,280	15%
Martin Brooke CFO	\$189,153	50%	85%	\$160,780	15%
Total				\$575,840	

4.5 FY21 LTI GRANTS

No grants were made to any of the Executive KMP under the LTI plan in FY21. There was also no vesting under the LTI plan in FY21. The first vesting point for the Executive KMP will occur in FY22 if performance hurdles are met.

5. REMUNERATION FRAMEWORK FOR FY21

During FY21 the remuneration framework for Executive KMP was made up of four components: Fixed Remuneration (salary including superannuation), Fixed LTE, Variable STI and Variable LTI. The aggregate of cash base salary, superannuation and LTE (Fixed) seeks to position KMP remuneration at or around median of the market comparator set, with more weighting towards a stronger at-risk LTI to support long-term decision making and performance aligned to Shareholders' long-term interests. Details of the remuneration framework follows:

5.1 FIXED REMUNERATION — SALARY (INCLUDING SUPERANNUATION)

TABLE 8 — FIXED REMUNERATION: SALARY (INCLUDING SUPERANNUATION)

Purpose	Attract and retain Executives, considering the size and complexity of the role, individual responsibilities, experience and skills.
Delivery	Fixed remuneration comprises cash salary, salary sacrifice items (where applicable) and superannuation contributions (or global equivalents).
Target	Highly competent, experienced and able Executives will be positioned up to the median benchmark, however, there will be flexibility to move up to the 75th percentile for external exceptional recruits into key high-demand roles.
Approach	Our fixed remuneration is positioned conservatively having regard to the role, responsibilities, criticality, complexity, skills, experience, performance and comparable companies with whom Zip competes for talent. Our Executive KMP are positioned below the median of the comparator set which is partly offset by the LTE. An annual review process makes adjustments to fixed remuneration for change in role or promotion, internal equity and significant market changes. Any increases to KMP remuneration requires Remuneration, People and Culture Committee endorsement and Board approval

Directors' Report

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5.2 FIXED REMUNERATION — LONG-TERM EQUITY (LTE) PLAN

TABLE 9 — FIXED REMUNERATION: LTE

Purpose	The LTE plan is designed to compensate Executives for the more conservative positioning of Fixed Cash Remuneration and is designed to bring Fixed Remuneration closer in line with the global market. The LTE provides Zip with the best opportunity to retain senior leaders and attract high quality talent particularly in the US where LTEs are common.
Instrument	Awards are made under the Zip Employee Incentive Plan and are made in the form of Performance Rights (rights), which upon vesting confer the entitlement to one ordinary share in Zip Co Limited.
Allocation Methodology	Performance Rights are granted on a face value basis by dividing the participants LTE dollar value opportunity in AUD by the 10 day VWAP of Zip Co Limited shares traded in the period immediately leading up to the release of the Zip quarterly/half yearly/yearly to the ASX immediately preceding the grant date.
Participants	All of the Executive KMP were invited to participate in the LTE offer for FY21.
Opportunity	The initial grant made in March 2021 at 50% of base salary vests over 4 years.
Vesting Condition/Period	The rights vest in equal tranches over 4 years (i.e. 25% per year). The participant must remain employed with Zip for the rights to vest. As the LTE is designed to compensate for lower fixed remuneration, there are no performance conditions attached other than meeting the performance expectations for the role as agreed in the performance management process. Upon vesting the rights automatically exercise and convert into ordinary shares.
Cessation of Employment	If the participant ceases employment then all their unvested rights automatically lapse unless the Board determines otherwise.
Change of Control	In the event of a Change of Control, the Board has the discretion to determine the treatment of all unvested rights.

5.3 AT-RISK SHORT-TERM INCENTIVE (STI) PLAN

TABLE 10 — STI KEY TERMS

Purpose	Rewards financial and non-financial performance consistent with Zip Co's strategy over the short-term. Varies the remuneration outcomes in line with the Company's annual performance with a balanced focus on financial, customer and people measures.
Participants	All permanent Zip employees are eligible to participate in the STI plan.
Award Opportunity	The Executive KMP have the following opportunity under the STI: <ul style="list-style-type: none">• At Threshold performance – 25% of base salary; and• At Maximum performance – 50% of base salary.
Performance Period	Zip's financial year. For FY21 this was 1 July 2020 to 30 June 2021

Performance Measures	<p>For FY21, STI performance was based on a balanced scorecard aligned to key strategies with the following measures:</p> <ul style="list-style-type: none"> • Financial: Total Transaction Volume (TTV) and Cash Net Transaction Margin (NTM) (30% each); • Customer: Customer Accounts (15%) and Customer Net Promoter Score (NPS) (15%); and • People: Employee Engagement (10%). <p>These performance conditions have been chosen as they best reflect financial and non-financial performance aligned with Zip’s strategy over the short-term. TTV and NTM continue to be the most relevant metrics for directly comparable companies to Zip and provide an appropriate financial measure, accounting for 60% of the total STI scorecard.</p> <p>The remaining 40% of the STI scorecard is weighted to customer and people measures. Customers are central to Zip’s mission to be the first payment choice everywhere and every day. The scorecard measures growth in the customer base while at the same time ensuring that these customers are advocates based upon their experience as measured by NPS. Employee engagement is independently measured for the key Australia and United States markets and rates employee satisfaction and discretionary effort to support our ability to grow and develop talent and drive a high performance culture.</p>
Performance Standards	<p>Performance standards for the FY21 STI balanced scorecard feature Threshold (Budget) and Maximum (Stretch) targets as follows:</p> <ul style="list-style-type: none"> • Financial: TTV and NTM: Threshold is the approved Budget and the Maximum is the Stretch goal; • Customer: Customer Accounts and Customer NPS: Threshold is the approved Budget and the Maximum is the Stretch goal; and • People: Employee Engagement: Threshold and targets set based on comparable high performance organisations and prior year performance. <p>The below payout scale applies to the FY21 STI:</p> <ul style="list-style-type: none"> • Below Threshold performance, no STI will be awarded; • At Threshold performance, 50% of the maximum will be awarded; • Above Threshold and below Maximum performance, a pro-rata STI will be awarded; and • At or above Maximum performance, the maximum STI will be awarded.
Delivery/Deferral	<p>The STI is delivered in ordinary shares for all participants. For the Executive KMP, 50% of any award can be traded immediately with the remaining 50% subject to a one-year restriction period. All trading is subject to the Zip Securities Trading Policy.</p>
Cessation of Employment	<p>If an Executive leaves during the performance period then they will forfeit their entitlement to an award unless the Board determines otherwise. If an Executive leaves during the deferral period then they will retain their shares subject to malus and clawback provisions (see below).</p>
Change of Control	<p>If the event of a Change of Control, the Board has the discretion to determine the treatment of all unvested rights.</p>
Board Discretion	<p>The Board retains absolute discretion in respect of STI awards and final vesting outcomes. As part of its overarching discretion, the Board may reduce final STI awards having regard to affordability considerations and the Group’s financial performance over the period.</p> <p>In addition to this overarching discretion, final STI outcomes are subject to a Board discretion modifier for “doing the right thing” whereby the Board may make downward adjustments (including to zero) for regulatory issues, conduct issues, brand and reputational issues, and non-financial and financial risk issues.</p>

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Malus/Clawback	<p>Amongst other things, the Board may elect to forfeit any unvested awards (i.e. malus) or recoup any vested and paid awards (i.e. clawback) in the following circumstances:</p> <ul style="list-style-type: none"> • a participant has engaged in serious misconduct (including but not limited to fraud, dishonesty, gross negligence or a breach of employment conditions); • a material misstatement in, or omission from the Group's financial statements or a misstatement of an applicable vesting condition; • a participant has acted or failed to act in a way that has contributed to material reputational damage to the Group; or • in the opinion of the Board, acting in good faith, all or part of the initial STI award is no longer justified having regard to the circumstances or information which has subsequently come to light.
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5.4 AT-RISK LONG-TERM INCENTIVE (LTI) PLAN

TABLE 11 – LTI KEY TERMS

Purpose	The LTI aligns Executive accountability and remuneration outcomes with the delivery of sustained group performance and shareholder interests over the long-term. It is designed to vary remuneration outcomes in line with the extent of longer-term (three year) performance achievement focused on shareholder returns.
Participants	All Executive KMP participate in the LTI along with members of the broader global Executive team.
Award Opportunity	Previous grants to Executive KMP are set at a maximum of 50% of base salary. From FY22 based on benchmarking advice, this will be increased to a maximum of 100% of base salary for the CFO and 150% for the CEO and COO, in line with the market comparator set.
Delivery	Awards are made under the Zip Employee Incentive Plan and are made in the form of Performance Rights (rights) which entitle the holder to one share in Zip upon vesting (or the cash equivalent value at the discretion of the Board).
Performance Period	The initial plan was a 3 year upfront offer with the rights vesting in equal tranches after 3, 4 and 5 years from the issue date. After the initial 3 year plan there will be a change towards an annual issuance.
Vesting Conditions	A participant must remain employed for the rights to vest (subject to the good leaver treatment outlined below). Importantly, there is a Total Shareholder Return (TSR) performance condition. TSR measures the return (including dividends if applicable) that a shareholder would obtain from holding a Company's securities.
Vesting Scale	<p>Performance standards for the LTI are:</p> <ul style="list-style-type: none"> • Threshold is compound TSR growth of 15% per annum; and • Maximum is compound TSR growth of 20% per annum. <p>Based on the above the follow vesting scale applies:</p> <ul style="list-style-type: none"> • Below Threshold, no LTI will vest; • At Threshold, 50% of the maximum LTI will vest; • Above Threshold and below Maximum performance, the LTI will vest on a pro-rata basis; and • At or above Maximum performance standard, the full LTI will vest.
Retesting	<p>For grants made prior to FY21 any unvested Performance Rights at the first two testing points are carried forward, and if the TSR hurdle at the final testing point is achieved, 100% of all the Performance Rights initially granted will vest.</p> <p>From FY22 this retesting clause will be removed and any rights that do not vest at the first two testing points will lapse.</p>

Negative Discretion (Malus and Clawback)	<p>Amongst other things, the Board may elect to forfeit any unvested awards (i.e. malus) or recoup any vested and paid awards (i.e. clawback) in the following circumstances:</p> <ul style="list-style-type: none"> • a participant has engaged in serious misconduct (including but not limited to fraud, dishonesty, gross negligence or a breach of employment conditions); • a material misstatement in, or omission from the Group's financial statements or a misstatement of an applicable vesting condition; • a participant has acted or failed to act in a way that has contributed to material reputational damage to the Group; or • in the opinion of the Board, acting in good faith, all or part of the initial performance rights award is no longer justified having regard to the circumstances or information which has subsequently come to light.
Cessation of Employment	<p>Subject to Board discretion, if a participant ceases to be employed:</p> <ul style="list-style-type: none"> • In "bad leaver" circumstances (e.g. termination for causes) during the performance period, all of the unvested LTI rights and vested but unexercised LTI rights will lapse (unless the Board determines otherwise); and • In "good leaver" circumstances (i.e. other than a bad leaver), unvested LTI rights will be forfeited unless the Board determines otherwise. The Board's intention is that the LTI rights will be pro-rated to time served in employment and left to be tested and vest in the ordinary course.
Change of Control	<p>In the event of a Change of Control, the Board has the discretion to determine the treatment of unvested rights (to be exercised consistently with the ASX Listing Rules).</p>

6. REMUNERATION POLICY AND GOVERNANCE

6.1 ROLE OF THE BOARD

The Zip Board reviews and approves remuneration policy and principles, remuneration frameworks for Executives and Non-Executive Directors, and specific remuneration outcomes for Executive KMP. The Remuneration, People and Culture Committee is the governing body for developing, monitoring and assessing remuneration strategy, policies and practices across Zip on behalf of the Board. The role of the Committee is to review, challenge, assess and as appropriate, endorse the recommendations made by management for Board approval. It oversees Zip's remuneration framework and assists the Board to ensure that Zip's remuneration strategy and policy are fair, responsible, effective and competitive. The Committee refers to the Policy when developing Board recommendations about Executive KMP remuneration outcomes and approves any variation to ensure global framework integrity.

The Committee Charter sets out the Committee's roles, responsibilities, composition, structure and membership requirements. The Committee is independent of Management when making decisions affecting employee remuneration. Where appropriate, the Chief Executive Officer, Chief Financial Officer and Chief People and Culture Officer attend Committee meetings as invitees, however, they do not participate in formal decision-making or in discussions relating to their own remuneration.

All performance is assessed by the Board with reference to Company risk management policies. The Board retains the ultimate discretion to adjust remuneration outcomes and/or unvested variable rewards (including to zero). This applies to equity granted under both the LTE, deferred STI and LTI plans if information comes to light that all or part of the award was not justified.

Directors' Report

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6.2 USE OF REMUNERATION CONSULTANTS

The Committee may seek and consider advice from external and independent advisers from time to time to assist the Committee discharge its duties, including periodically testing the market competitiveness of the Remuneration policy and framework benchmarking against comparable companies. Given the global expansion of the Company and increasing focus on the US, this benchmarking is now global as we compete for high performing talent.

In FY21 Guerdon Associates were engaged by the Committee to assist with the decision-making process and to help them assess the market competitiveness of the KMP remuneration packages. In addition, PriceWaterhouseCoopers (PwC) provided assistance with Zip's equity plans and to provide legal and tax advice. A total of \$0.3 million was paid for these services. Neither of these advisers provided a recommendation in accordance with the requirements of the *Corporations Act 2001*.

At the end of FY21 Godfrey Remuneration Group (GRG) were engaged to provide advice around benchmarking for the Zip broader global Executive team to ensure that the remuneration for these roles is in line with the global markets in which Zip operates. Further details around this engagement will be provided in the FY22 remuneration report.

In FY20, the Board engaged Egan Associates Pty Limited to provide independent advice on a range of matters including the remuneration arrangements of KMP and Executives. Egan Associates Pty Limited was paid \$0.05 million for these services.

The Board is satisfied that the remuneration recommendations are free of any undue influence by a member of the KMP to whom a recommendation relates as a result of independent benchmarking conducted by remuneration consultants with declarations made to the Chair of the Remuneration, People and Culture Committee.

6.3 SECURITIES TRADING POLICY

The Zip Securities Trading Policy is featured in the Zip Corporate Governance Statement.

The Zip Securities Trading Policy outlines the type of conduct in dealing securities that are prohibited under the Corporations Act and to establish a best practice for Zip. The policy covers all Zip employees including KMP. In order to ensure that Zip employees do not breach the insider trading provisions of the Corporations Act, trading is not permitted during certain periods set out in the policy. These prohibited periods are as follows:

- The period from 31 December each year, until the commencement of trade of securities on the ASX on the second ASX trading day following the announcement of the Company's half-year results to the ASX;
- The period from 30 June each year, until the commencement of trade of securities on the ASX on the second ASX trading day following the announcement of the Company's full-year results to the ASX;
- The period from 30 September each year, until the commencement of trade of securities on the ASX on the second trading day on the ASX following the announcement of the Company's quarterly results for the period 1 July to 30 September; and;
- The period from 31 March each year, until the commencement of trade of securities on the ASX on the second trading day on the ASX following the announcement of the Company's quarterly results for the period 1 January to 31 March; and
- Any other time as determined by the Board of the Company in its sole discretion.

All other times of the year are Trading Periods under the policy. During all periods (including Trading Periods), a written clearance request must be submitted to and approved by:

- a) (subject to (b)), the Chair for directors, officers, senior management;
- b) the Chair of the Audit & Risk Committee for the Chair of the Board; and
- c) the Company Secretary, an Executive Director, or Chief Financial Officer for all other Zip Personnel

prior to any dealing in Zip securities. All Zip employees must not trade at any time if they possess insider information.

6.4 SERVICE AGREEMENTS

Remuneration and other terms of employment for KMP are formalised in service agreements.

The Executive KMP have employment service agreements with notice periods. The CEO and COO have notice periods of 6 months whilst the CFO has a 3 month notice period. Executive KMP are not entitled to any termination payments with a payment in lieu of the notice period at the discretion of the Board where termination occurs other than for cause. Details of these agreements are outlined below in Table 12:

TABLE 12 — SERVICE AGREEMENTS

Duration	Ongoing term
Periods of notice required to terminate Executive KMP	Either party may terminate the contract: <ul style="list-style-type: none">For the Executive Directors (Larry Diamond and Peter Gray), the Company may terminate the agreement on 6 months' notice or by providing cash payments equal to 6 months' pay; andFor the CFO (Martin Brooke), the Company may terminate the agreement on a 3 months' notice or by providing a cash payment equal to 3 month's pay.
Termination payments	Executive KMP are not entitled to any termination payments with a payment in lieu of the notice period at the discretion of the Board where termination occurs other than for cause.

7. NON-EXECUTIVE DIRECTOR (NED) REMUNERATION

The remuneration policy for Non-Executive Directors seeks to deliver market competitive fees at the median of the comparator set to attract and retain talented, qualified directors, preserve independence, and align director and shareholder interests. The Board policy is to remunerate Non-Executive Directors at market rates for comparable companies for time, commitment and responsibilities. Director fees are set with reference to relevant market benchmarks in the financial services, consumer, payments and technology sectors targeting the market median. The Board determines payments to the Non-Executive Directors and reviews their remuneration annually, based on market practice, duties and accountability and consists of base fees and additional fees for membership and/or chairing of the Audit and Risk, and Remuneration, People and Culture Committee. No additional fees are paid for membership of the Nomination Committee.

7.1 BOARD COMPOSITION

The Zip Board has five Directors, three independent Non-Executive Directors and two Executive Directors (being the CEO and COO). The composition of the Board was strengthened through FY21 with the appointment of two independent Non-Executive Directors, Diane Smith-Gander AO as Chair and Pippa Downes as Chair Audit and Risk.

The Board will continue to review the collective skills, knowledge, experience and diversity required to support its ongoing performance and governance duties, with a view to identifying skills, capacity and global market knowledge to support Zip's continued growth, global expansion and long-term success.

7.2 AGGREGATE FEE POOL

Non-Executive Directors fees are determined within an aggregate fee pool limit. The current fee pool is \$1,000,000 (inclusive of superannuation) and was approved by shareholders at the AGM held on 29 November 2019. The fee pool is designed to provide flexibility to the Board when there are changes in its size and composition. To support the performance and governance of the Company as we expand globally, the Board seeks to recruit additional Directors, with particular focus in the US. As the current fee pool is below many of Zip's peers and with the need to recruit and appoint further independent directors to the Board, the Board is intending to put a resolution to Shareholders at the 2021 AGM to increase the fee pool to \$1,500,000 to appoint 2 additional independent Non-Executive Directors to bring additional skills and capacity from FY22.

Directors' Report

Continued

7.3 NON-EXECUTIVE DIRECTORS SHAREHOLDING POLICY

From FY22 the Board will be introducing a minimum shareholding requirement. This requirement is designed to facilitate share ownership and further strengthen the alignment between Directors and the Group's shareholders. Non-Executive Directors will be required to build a shareholding with a monetary value (at cost) equal to the base director fee within a three-year timeframe being the later of:

- Three years from the effective date of the policy in October 2021; or
- Three years from date of commencement as a Non-Executive Directors for those appointed after October 2021.

7.4 NON-EXECUTIVE DIRECTORS FEE STRUCTURE

In order to maintain independence and impartiality, Non-Executive Directors do not receive performance related remuneration such as share options or rights with a performance condition. The Board is currently considering implementing a service only tested equity plan for overseas based directors when they are appointed to the Board. To support the attraction and retention of overseas Directors (particularly in the US where director fees are significantly higher and typically include equity) the Board will need to provide overseas Directors with higher fees which could include equity, in line with the market. Further information will be provided in due course and any grant of equity will be put to the Shareholders for approval.

Table 13 below sets out the current Board and Committee fee structure (all fees are inclusive of superannuation). The Board will continue to review market based comparator sets and is not currently intending any changes to these fees for FY22.

TABLE 13 — NON-EXECUTIVE DIRECTOR FEES

ROLE	CHAIR FEE	DIRECTOR/ MEMBER FEE
Main Board	\$250,000	\$150,000
Audit and Risk Committee	\$25,000	\$12,500
Remuneration, People and Culture Committee	\$12,500	\$12,500

1. The Board chair does not receive additional fees for serving on Committees.

Non-Executive Directors do not receive fees for serving on the Nomination Committee.

Non-Executive Directors are entitled to be reimbursed for all reasonable business related expenses in addition to Board fees, as may be reasonably incurred in the discharge of their duties.

7.5 NON-EXECUTIVE DIRECTORS SERVICE AGREEMENTS

For Non-Executive Directors, tenure and retirement/resignation as a director is governed by the *Corporations Act 2001* and the Company's constitution. Non-Executive Directors are not entitled to any termination payments.

8. STATUTORY REMUNERATION TABLES

8.1 DETAIL OF REMUNERATION FOR KMP

Details of the remuneration of KMP of the consolidated entity are set out in the following table which have been prepared in accordance with the accounting standards.

TABLE 14 — REMUNERATION STATUTORY TABLE

FY21 AND FY20 (\$)	TOTAL FIXED REMUNERATION					AT RISK REMUNERATION		TOTAL	
	SALARY AND FEES	SALARY SACRIFICE	SUPER-ANNUATION	ANNUAL LEAVE	LONG-TERM EQUITY	SHORT-TERM INCENTIVE	LONG-TERM INCENTIVE		
Non-Executive Directors:									
Diane Smith-Gander AO (part year FY21) ¹	FY21	95,129	-	9,037	-	-	-	-	104,166
John Batistich	FY21	159,817	-	15,183	-	-	-	-	175,000
	FY20	139,536	-	13,256	-	-	-	-	152,792
Pippa Downes (part year) ²	FY21	128,425	-	9,490	-	-	-	-	137,915
Philip Crutchfield (part year FY21) ³	FY21	136,986	-	13,014	-	-	-	-	150,000
	FY20	165,898	-	15,760	-	-	-	-	181,658
Dianne Challenor ⁴	FY21	-	-	-	-	-	-	-	-
	FY20	-	-	-	-	-	-	-	-
Executive Directors:									
Larry Diamond	FY21	498,306	-	21,694	7,666	20,252	211,780	161,524	921,222
	FY20	401,166	14,408	38,111	20,750	-	186,750	158,649	819,834
Peter Gray	FY21	478,306	-	21,694	7,359	19,439	203,280	161,524	891,602
	FY20	386,666	3,602	36,733	23,077	-	180,000	158,649	788,727
Executive Manager:									
Martin Brooke	FY21	378,306	-	21,694	21,825	15,375	160,780	127,101	725,081
	FY20	314,166	-	29,846	6,250	-	178,750	127,101	656,113
Total FY21		1,875,275	-	111,806	36,850	55,066	575,840	450,149	3,104,986
Total FY20		1,407,432	18,010	133,706	50,077	-	545,500	444,399	2,599,124

1. Diane Smith-Gander AO commenced as a KMP on 1 February 2021.

2. Pippa Downes commenced as a KMP on 1 October 2020.

3. Philip Crutchfield ceased as KMP on 2 March 2021.

4. Dianne Challenor ceased as KMP on 1 October 2020.

Directors' Report

Continued

8.2 SHARE-BASED COMPENSATION

8.2.1 ISSUE OF SHARES

Other than set out in this report, there were no shares issued to Directors and other KMP as part of compensation during the financial year ended 30 June 2021.

8.2.2 PERFORMANCE RIGHTS HOLDING

The number of Performance Rights in the Company held during the financial year by each Director and other members of KMP of the consolidated entity, including their personally related parties affecting remuneration of Directors and other KMP in the current or future financial years is set out below:

AT RISK LONG TERM INCENTIVE:

AT RISK LONG TERM INCENTIVE	BALANCE AT THE START OF THE YEAR	GRANTED	CONVERSION TO ORDINARY SHARES	DISPOSALS/ OTHER	BALANCE AT THE END OF THE YEAR
Larry Diamond	610,000	-	-	-	610,000
Peter Gray	610,000	-	-	-	610,000
Martin Brooke	480,000	-	-	-	480,000
Total	1,700,000	-	-	-	1,700,000

ISSUE DATE	VESTING DATE	EXPIRY DATE	NUMBER OF RIGHTS ISSUED	FAIR VALUE AT GRANT DATE \$
15 February 2019	15 September 2021	15 February 2025	160,000	0.287
15 February 2019	15 February 2022	15 February 2025	406,666	0.287
15 February 2019	15 September 2022	15 February 2025	160,000	0.317
15 February 2019	15 February 2023	15 February 2025	406,666	0.317
15 February 2019	15 September 2023	15 February 2025	160,000	0.330
15 February 2019	15 February 2024	15 February 2025	406,668	0.330
Total			1,700,000	

LONG TERM EQUITY:

LONG TERM EQUITY	BALANCE AT THE START OF THE YEAR	GRANTED	CONVERSION TO ORDINARY SHARES	DISPOSALS/ OTHER	BALANCE AT THE END OF THE YEAR
Larry Diamond	-	20,252	-	-	20,252
Peter Gray	-	19,439	-	-	19,439
Martin Brooke	-	15,375	-	-	15,375
Total	-	55,066	-	-	55,066

ISSUE DATE	VESTING DATE	EXPIRY DATE	NUMBER OF RIGHTS ISSUED	\$ FAIR VALUE AT GRANT DATE
8 March 2021	8 March 2022	8 March 2027	13,767	8.92
8 March 2021	8 March 2023	8 March 2027	13,767	8.92
8 March 2021	8 March 2024	8 March 2027	13,767	8.92
8 March 2021	8 March 2025	8 March 2027	13,765	8.92
Total			55,066	

8.2.3 OPTIONS HOLDINGS

No options were granted during FY21 and none of the KMP currently hold options for shares in Zip.

8.3 ADDITIONAL DISCLOSURES RELATING TO KMP

8.3.1 SHAREHOLDING

ORDINARY SHARES	BALANCE AT THE START OF THE YEAR	AT APPOINTMENT DATE	CONVERSION		NET ADDITIONS/ (DISPOSALS)	BALANCE AT THE END OF THE YEAR
			FROM PERFORMANCE SHARES	CONVERSION FROM OPTIONS		
Diane Smith-Gander AO	-	-	-	-	2,500	2,500
Philip Crutchfield	3,802,980	-	-	-	11,342	3,814,322 ¹
Larry Diamond	55,986,987	-	-	-	(1,458,390)	54,528,597
Peter Gray	18,038,013	-	-	-	(465,155)	17,572,858
John Batistich	363,561	-	-	-	-	363,561
Dianne Challenor	-	-	-	-	-	- ²
Pippa Downes	-	-	-	-	2,500	2,500
Martin Brooke	156,490	-	-	-	(25,382)	131,108

1. Shareholding balance of Philip Crutchfield at 2 March 2021 when he ceased as a KMP.

2. Shareholding balance of Dianne Challenor at 1 October 2020 when she ceased as a KMP.

8.3.2 OTHER TRANSACTIONS

There were no loans to/from and no other transactions in the financial year ended 30 June 2021 and to the date of this report between the Company and:

- the Directors; and
- other members of KMP of the consolidated entity, including their personally related parties.

The information provided in this remuneration report has been audited as required by section 308(3C) of the *Corporations Act 2001*. This concludes the remuneration report, which has been audited.

Directors' Report

Continued

INDEMNITY AND INSURANCE OF OFFICERS

The Company has indemnified the Directors and Executives of the Company for costs incurred, in their capacity as a Director or Executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the Company paid a premium in respect of a contract to insure the Directors and Executives of the Company against a liability to the extent permitted by the *Corporations Act 2001*. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

INDEMNITY AND INSURANCE OF AUDITOR

The Company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor.

During the financial year, the Group has not paid a premium in respect of a contract to insure the auditor of the Company or any related entity.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to the Company under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

NON-AUDIT SERVICES

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditors are outlined in Note 28 to the financial statements. Total amount paid for non-audit services for the year amounted to \$153,000 (2020: \$251,600).

OFFICERS OF THE COMPANY WHO ARE FORMER PARTNERS OF DELOITTE TOUCHE TOHMATSU

There are no officers of the Company who are former partners of Deloitte Touche Tohmatsu.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out immediately after this Directors' report.

AUDITOR

Deloitte Touche Tohmatsu continues in office in accordance with section 327 of the *Corporations Act 2001*.

This report is made in accordance with a resolution of Directors, pursuant to section 298(2)(a) of the *Corporations Act 2001*. On behalf of the Directors.



Larry Diamond
Managing Director & Chief Executive Officer

29 September 2021

Auditor's Independence Declaration

Deloitte.

Deloitte Touche Tohmatsu
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Australia

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The Board of Directors
Zip Co Limited
Level 14, 10 Spring Street
Sydney NSW 2000

29 September 2021

Dear Board Members

Auditor's Independence Declaration to Zip Co Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Zip Co Limited.

As lead audit partner for the audit of the financial statements of Zip Co Limited for the financial year ended 30 June 2021, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours faithfully

Deloitte. Touche. Tohmatsu.

DELOITTE TOUCHE TOHMATSU



Mark Lumsden
Partner
Chartered Accountants

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Member of Deloitte Asia Pacific Limited and the Deloitte organisation.

Statement of Profit or Loss and Other Comprehensive Income

for the Year Ended 30 June 2021

	NOTE	30 JUNE 2021 \$'000	30 JUNE 2020 \$'000
Operating Income	3	397,068	160,070
Cost of Sales			
Interest expense		(58,651)	(38,944)
Amortisation of funding costs		(5,129)	(1,877)
Bad debts and expected credit losses		(123,881)	(53,669)
Bank fees and data costs		(71,511)	(13,223)
Total Cost of Sales		(259,172)	(107,713)
Gross Profit		137,896	52,357
Other income	3	451	931
Expenditure			
Administration expenses	4	(27,047)	(9,932)
Depreciation expense	4	(5,772)	(3,993)
Amortisation of intangibles	4	(85,996)	(9,045)
Information technology expenses		(24,027)	(11,496)
Marketing expenses		(71,230)	(9,515)
Corporate financing costs	4	(10,796)	(517)
Occupancy expenses		(2,419)	(1,716)
Salaries and employee benefits expenses		(97,692)	(44,315)
Share-based payments	4	(142,843)	(20,393)
Acquisition of business costs		(9,938)	(10,273)
Share of loss of associates	5	(753)	(187)
Fair value (loss) gain on financial instruments	4	(77,613)	47,505
Net adjustment relating to the acquisition of QuadPay	7	(306,235)	-
Loss Before Income Tax		(724,014)	(20,589)
Income tax benefit	8	65,240	648
Loss After Income Tax Attributable to Members of Zip Co Limited		(658,774)	(19,941)
Other Comprehensive Loss for the year			
Foreign exchange differences on translation		(19,291)	(79)
Total Other Comprehensive Loss for the year, Net of Tax		(19,291)	(79)
Total Comprehensive Loss for the year Attributable to Members of Zip Co Limited		(678,065)	(20,020)
		CENTS	CENTS
Earnings per share			
Basic loss per share	9	(128.16)	(5.31)
Diluted loss per share	9	(128.16)	(5.31)

The above Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

Statement of Financial Position

for the Year Ended 30 June 2021

	NOTES	30 JUNE 2021 \$'000	30 JUNE 2020 \$'000
Assets			
Cash and cash equivalents	10	330,201	32,712
Other receivables	11	32,719	6,875
Term deposit		1,507	1,507
Customer receivables	12	1,988,036	1,116,618
Investments at FVTPL	13	19,034	82,931
Investments in associates	5	7,006	1,184
Property, plant and equipment	14	3,294	3,512
Right-of-use assets	15	5,849	8,160
Intangible assets	16	203,819	25,093
Goodwill	17	772,961	53,441
Deferred tax assets	18	10,312	-
Total Assets		3,374,738	1,332,033
Liabilities			
Trade and other payables	19	73,096	19,533
Employee provisions		6,034	2,753
Deferred contingent consideration	20	6,990	13,979
Leasing liabilities	14	6,296	8,414
Borrowings	21	1,659,233	1,081,954
Financial liabilities – convertible notes and warrants	6	469,965	-
Deferred tax liabilities	18	10,312	-
Total Liabilities		2,231,926	1,126,633
Net assets		1,142,812	205,400
Equity			
Issued capital	22	1,688,785	274,151
Reserves		86,707	19,621
Convertible notes – equity	6	114,466	-
Accumulated losses		(747,146)	(88,372)
Total Equity		1,142,812	205,400

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

Statement of Changes in Equity

for the Year Ended 30 June 2021

	ISSUED CAPITAL \$'000	TREASURY SHARES \$'000	SHARE-BASED PAYMENTS RESERVE \$'000	FOREIGN CURRENCY TRANSLATION RESERVE \$'000	CONVERTIBLE NOTES \$'000	ACCUM- ULATED LOSSES \$'000	TOTAL \$'000
Balance at 1 July 2019	141,211	-	3,520	-	-	(68,431)	76,300
Loss for the period	-	-	-	-	-	(19,941)	(19,941)
Other comprehensive income	-	-	-	(79)	-	-	(79)
Total Comprehensive Loss	-	-	0	(79)	-	(19,941)	(20,020)
Recognition of share-based payments	-	-	20,393	-	-	-	20,393
Exercise of share-based payments	-	-	(4,213)	-	-	-	(4,213)
Issue of ordinary shares under share-based payments plans	4,213	-	-	-	-	-	4,213
Exercise of options	180	-	-	-	-	-	180
Issue of shares – acquisitions	68,805	-	-	-	-	-	68,805
Issue of shares – capital raising	61,871	-	-	-	-	-	61,871
Costs of issuing shares	(2,129)	-	-	-	-	-	(2,129)
Balance at 30 June 2020	274,151	-	19,700	(79)	-	(88,372)	205,400
Balance at 1 July 2020	274,151	-	19,700	(79)	-	(88,372)	205,400
Loss for the period	-	-	-	-	-	(658,774)	(658,774)
Other comprehensive loss	-	-	-	(19,291)	-	-	(19,291)
Total Comprehensive Loss	-	-	-	(19,291)	-	(658,774)	(678,065)
Recognition of share-based payments	-	-	142,843	-	-	-	142,843
Exercise of share-based payments	-	-	(123,267)	-	-	-	(123,267)
Issue of shares to Zip Employee Share Trust	18,491	(18,491)	-	-	-	-	-
Issue of treasury shares from Zip Employee Trust	-	8,053	(8,053)	-	-	-	-
Recognition of replacement options issued for QuadPay acquisition	-	-	85,292	-	-	-	85,292
Issue of ordinary shares under share-based payment plans	123,267	-	-	-	-	-	123,267
Exercise of options	1,342	-	-	-	-	-	1,342
Issue of shares – acquisitions	1,090,741	-	-	-	-	-	1,090,741
Issue of shares – capital raising	176,710	-	-	-	-	-	176,710
Issue of shares – PartPay contingent consideration (refer to Note 20)	6,989	-	-	-	-	-	6,989
Issue of convertible notes	-	-	-	-	114,466	-	114,466
Cost of issuing of shares	(2,906)	-	-	-	-	-	(2,906)
Balance at 30 June 2021	1,688,785	(10,438)	116,515	(19,370)	114,466	(747,146)	1,142,812

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Statement of Cash Flows

for the Year Ended 30 June 2021

	NOTES	30 JUNE 2021 \$'000	30 JUNE 2020 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating income from customers		403,009	160,501
Payments to suppliers and employees		(292,594)	(99,217)
Interest received from financial institutions		187	107
Interest paid		(57,677)	(38,431)
Acquisition of business costs		(8,702)	(8,332)
Net Cash Flow from Operating Activities		44,223	14,628
CASH FLOWS TO INVESTING ACTIVITIES			
Payments for plant and equipment		(1,383)	(2,436)
Payments for software development		(12,009)	(17,041)
Net increase in receivables		(930,054)	(488,811)
Payments for acquisitions, net of cash acquired	7	26,209	2,667
Payments for investments in associates	5	(6,575)	(70)
Payments for investments	12	(14,488)	(16,606)
Net Cash Flow to Investing Activities		(938,300)	(522,297)
CASH FLOWS FROM FINANCING ACTIVITIES			
Borrowing transaction costs		(2,084)	(2,932)
Proceeds from borrowings		1,051,866	473,605
Repayment of borrowings		(521,199)	(551)
Proceeds from issue of convertible notes		490,978	-
Repayment of principal of lease liabilities		(3,737)	(2,195)
Proceeds from issue of shares		178,052	62,051
Costs of share issues		(2,906)	(2,129)
Net Cash Flow from Financing Activities		1,190,970	527,849
Net increase in cash and cash equivalents		296,893	20,180
Cash and cash equivalents at the beginning of the year		32,712	12,611
Foreign exchange effect		596	(79)
Cash and Cash Equivalents at the End of the Year	10	330,201	32,712

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES OF THE ANNUAL REPORT

A. STATEMENT OF COMPLIANCE

The full-year financial report is a general purpose financial report prepared in accordance with the *Corporations Act 2001*, Australian Accounting Standards and Interpretations, and complies with other requirements of the law.

Compliance with Australian Accounting Standards ensures that the financial statements and notes of the consolidated entity comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Consequently, this financial report has been prepared in accordance with and complies with IFRS as issued by the IASB.

The consolidated entity is a for-profit entity and the financial statements comprise the consolidated financial statements of the consolidated entity.

The financial statements were approved by the Board of Directors and authorised for issue on 24 September 2021. The Directors have the power to amend and reissue the financial statements.

B. BASIS OF PREPARATION

The Report has been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars and all values are rounded to the nearest thousand (\$'000), unless otherwise noted. When necessary, comparative figures have been adjusted to comply with the changes in presentation in the current period.

C. GOING CONCERN

The Directors have prepared the Report on the going concern basis, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business. The consolidated statement of profit or loss and other comprehensive income for the year ended 30 June 2021 reflects the consolidated entity's total comprehensive loss after tax of \$678.1 million. The consolidated statement of cash flows for the year ended 30 June 2021 reflects net cash flows from operations of \$44.2 million.

The Directors have reviewed cash flow forecasts for the consolidated entity through to 30 September 2022. The cash flow forecasts indicate that the consolidated entity will have sufficient funding to operate as a going concern during the forecast period. The Directors have concluded that it is appropriate to prepare the financial statements on the going concern basis, as they are confident that the consolidated entity will be able to pay its debts as and when they become due and payable from operating cash flows and available finance facilities.

The financial statements do not include adjustments relating to the recoverability and classification of recorded asset amounts nor to the amounts and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern.

D. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

The consolidated entity has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current financial year and that have a significant impact on the consolidated entity's financial statements. There were no new or revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that have materially impacted the consolidated entity's financial statements for the year ended 30 June 2021.

E. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In preparing this report, the consolidated entity has been required to make certain estimates and assumptions concerning future occurrences. There is an inherent risk that the resulting accounting estimates will not equate exactly with actual events and results in the future.

REVENUE RECOGNITION

PORTFOLIO INTEREST INCOME

The consolidated entity recognises portfolio interest income on customer receivables using the effective interest rate method (in accordance with AASB 9), based on estimated future cash receipts over the expected life of the financial asset. In making their judgement of the estimated future cashflows and the expected life of the customer receivables balance, the Directors have considered the historical repayment pattern of the customer receivables on a portfolio basis for each type of its products.

These estimates require significant judgment and will be reviewed on an ongoing basis and where required, appropriate adjustments to the recognition of revenue will be made.

The Directors consider that revenue from Merchant fees, Establishment fees, Monthly fees and Interest are akin to financial or portfolio interest income which should be accrued on a time proportionate basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

The difference between Fees and Interest booked to customers' accounts and portfolio interest income is reported as unearned future income in the financial statements. Refer to Note 12 for details.

TRANSACTIONAL INCOME

Transactional income includes transaction processing fees, affiliate fees and interchange which are recognised as earned and not considered portfolio interest income.

PROVISION FOR EXPECTED CREDIT LOSS

Financial assets, other than those at fair value through profit and loss, are assessed for indicators of impairment at the end of each reporting period. The carrying amounts of certain assets are often determined based on estimates and assumptions of future events.

An expected credit loss model is used for the assessment of impairment of customer receivables under AASB 9. Expected credit losses (ECL) are based on the difference between the contractual cash flows due in accordance with the terms of the consolidated entity's products and all the cash flows that the consolidated entity expects to receive from its customers. The expected credit losses are calculated based on either 12 months or the lifetime of the customer receivables.

When measuring expected credit losses the consolidated entity uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other. Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements. Probability of default constitutes a key input in measuring ECL. Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions. Judgement has been applied in the assessment of the macroeconomic overlay in the current financial year taking into account the impact of COVID-19. Refer to Note 12 for further details.

Notes to the Financial Statements

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INTANGIBLE ASSETS

SOFTWARE DEVELOPMENT ASSET

Software development costs are capitalised only when:

- The technical feasibility and commercial viability or usefulness of the project is demonstrated;
- The consolidated entity has an intention, ability and financial resources to complete the project and use it or sell it; and
- The costs can be measured reliably.

Such costs include payments to external contractors, any purchase of materials and equipment, and the costs of employees, who are directly involved in the software project.

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

ACQUIRED INTANGIBLES

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date.

Acquired intangibles are independently valued by an external valuer and their fair values are recorded at initial recognition. Refer to Note 7 for the valuation of intangibles acquired during the financial year.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

The useful life of intangible assets is assessed on either the duration for which the assets contribute to the consolidated entity's value or the timing of the projected cashflow of the relationships.

IMPAIRMENT OF NON-FINANCIAL ASSETS

Non-financial assets other than goodwill and other indefinite life intangible assets are reviewed for indicators of impairment. Goodwill and other indefinite life intangible assets are tested for impairment annually or more frequently if there are indications that goodwill and indefinite life intangible assets might be impaired. If an intangible asset was recognised during the current annual period, that intangible asset is tested for impairment before or at the end of the current annual period.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated pre-tax future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit (CGU) to which the asset belongs.

CGUs are defined as the smallest group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or group of assets. Goodwill is allocated to CGUs and the impairment of goodwill is tested at CGU level.

Intangible assets such as brands, customer relationships and trademarks used by the consolidated entity for its own activities are unlikely to generate largely independent cash inflows and are therefore tested at a CGU level. Please refer to Note 17 for detailed assumptions and assessment of impairment for goodwill and intangible assets.

The assessment of impairment of investments in associates and of right-of-use assets is detailed in Note 5 and Note 15, respectively.

FAIR VALUE MEASUREMENTS AND VALUATION PROCESSES

The consolidated entity measures certain assets and liabilities at fair value for financial reporting purposes. In estimating the fair value of these assets and liabilities, the consolidated entity uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the consolidated entity engages qualified third party valuers to assist with the valuation and work closely with management to establish the appropriate valuation techniques and inputs to the valuation model. Key inputs to the model include Zip's share price, volatility and the risk free rate. Refer to Note 6 for details.

ACQUISITION ACCOUNTING

Acquisitions of businesses are accounted for using the acquisition method. The consolidated entity identifies the acquisition date, which is the date on which it obtains control of the acquiree. Judgement is required when determining the date on which the consolidated entity obtains control of the acquiree, considering the events and conditions precedent to completing the acquisition, which may include but is not limited to, the signing of the sale and purchase agreement between the consolidated entity and the acquiree, obtaining Board, shareholder and regulatory approvals and the issuing and legal transfer of consideration, including in the form of shares in the consolidated entity.

The consolidated entity may obtain control of an acquiree in which it held an equity interest immediately before the acquisition date. AASB 3 *Business Combinations* refers to such a transaction as a business combination achieved in stages. Judgement is required in remeasuring the consolidated entity's previously held equity interest in the acquiree from its previous classification and measurement under AASB 9 *Financial Instruments* or AASB 128 *Investments in Associates* to its acquisition-date fair value.

The consideration transferred in a business combination is measured at fair value which is calculated as the sum of the acquisition date fair values of assets transferred to the former owners, liabilities incurred by the consolidated entity to the former owners of the acquiree, and the equity instruments issued by the consolidated entity in exchange for control of the acquiree. Potential forms of consideration include cash, other assets, a business or a subsidiary of the acquirer, contingent consideration, ordinary or preference equity instruments, options, warrants and member interests of mutual entities. Whether arrangements for contingent payments to employees or selling shareholders are contingent consideration in the business combination or are separate transactions depends on the nature of the arrangements. Understanding the reasons why the acquisition agreement includes a provision for contingent payments, who initiated the arrangement and when the parties entered into the arrangement requires judgement in assessing the nature of the arrangement and whether the contingent payment forms part of the consideration transferred in a business combination or a separate transaction.

Indicators include, but are not limited to, payments that are contingent on continued employment by the selling shareholders who become key employees in the consolidated entity, the duration of their continued employment compared to the contingent payment period and whether the level of their employee remuneration other than the contingent payments is at a reasonable level in comparison with that of other key employees in the consolidated entity.

F. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Zip Co Limited ('parent entity') as at 30 June 2021 and the results of all subsidiaries for the twelve months then ended (for acquired subsidiaries since acquisition dates). Zip Co Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

Subsidiaries are all entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between the entities that are controlled by the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred.

Notes to the Financial Statements

Continued

G. SEGMENT REPORTING

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers (CODM). CODM include the Non-Executive Directors, Chief Executive Officer, Chief Operations Officer and Chief Financial Officer. The CODM are responsible for the allocation of resources to operating segments and assessing their performance.

H. BUSINESS COMBINATIONS

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value which is calculated as the sum of the acquisition date fair values of assets transferred to the former owners, liabilities incurred by the consolidated entity to the former owners of the acquiree, and the equity instruments issued by the consolidated entity in exchange for control of the acquiree.

Goodwill arises in a business combination when the consideration transferred to the acquiree is greater than the net of the acquisition-date fair value of identifiable assets and the liabilities assumed. Acquisition costs are recognised in profit or loss as incurred.

Where the consideration transferred by the consolidated entity in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value.

If there are changes in the fair value of the contingent consideration that qualify as measurement period adjustments, they are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as a liability is remeasured at subsequent reporting dates in accordance with AASB 9 *Financial Instruments*, or AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

I. CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

J. PROPERTY, PLANT AND EQUIPMENT

Plant and equipment is stated at historical cost less depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the consolidated entity and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All repairs and maintenance are charged to the Income Statement during the reporting period in which they are incurred.

Depreciation is calculated using the straight-line or diminishing value method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives. Depreciation of computer equipment is calculated using the diminishing method over the estimated useful life of 4 years. Depreciation of leasehold improvements is calculated using the straight-line method over the life of the lease (average lease term is currently 4 years).

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with the carrying amount of the asset disposed. These are included in the Income Statement.

K. GOODWILL

Goodwill arising on the acquisition of a business is carried at cost as established at the date of the acquisition of the business, less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the consolidated entity's CGUs (or groups of CGUs) that are expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is so allocated is (a) representing the lowest level within the entity at which the goodwill is monitored for internal management purposes; and (b) not be larger than an operating segment determined in accordance with AASB 8 *Operating Segments*.

A CGU to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss.

An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant CGU, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

L. TRADE AND OTHER PAYABLES

Trade and other payables represent the principal amounts outstanding at balance date, plus, where applicable, any accrued interest.

M. EMPLOYEE BENEFITS

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave, and long service leave.

Liabilities arising in respect of wages and salaries, annual leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the market yield as at the reporting date on high quality corporate bond rates, which have terms to maturity approximating the terms of the related liability, are used.

SHARE-BASED PAYMENTS

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in Note 31.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the consolidated entity's estimate of the number of equity instruments that will eventually vest. At each reporting date, the consolidated entity revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to reserves. Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

There are no cash-settled share-based payments as at year end. Share-based payments which have been approved but yet to be issued to the employees at the end of the reporting period are recognised on the basis of equity settled share-based payment transactions.

Notes to the Financial Statements

Continued

SHARE-BASED PAYMENT TRANSACTIONS OF THE ACQUIREE IN A BUSINESS COMBINATION

When the share-based payment awards held by the employees of an acquiree (acquiree awards) are replaced by the Company's share-based payment awards (replacement awards), both the acquiree awards and the replacement awards are measured in accordance with AASB 2 ("market-based measure") at the acquisition date. The portion of the replacement awards that is included in measuring the consideration transferred in a business combination equals the market-based measure of the acquiree awards multiplied by the ratio of the portion of the vesting period completed to the greater of the total vesting period or the original vesting period of the acquiree award. The excess of the market-based measure of the replacement awards over the market-based measure of the acquiree awards included in measuring the consideration transferred is recognised as remuneration cost for post-combination service.

N. FINANCIAL INSTRUMENTS

RECOGNITION AND MEASUREMENT OF FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised when the consolidated entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value.

FINANCIAL ASSETS

Financial assets are subsequently measured at amortised cost and include cash and cash equivalents, term deposits, other receivables (excluding prepayments) and customer receivables. Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI are measured at FVTPL. Investments in equity instruments are classified as investments at FVTPL, unless the consolidated entity designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition. The consolidated entity did not have any financial assets measured at FVTOCI at 30 June 2021 and 30 June 2020.

Financial assets at FVTPL are subsequently measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss to the extent they are not part of a designated hedging relationship. The net gain or loss is recognised in profit or loss. There is no requirement to recognise an impairment loss.

FINANCIAL LIABILITIES

Financial liabilities including trade and other payables, loans and borrowings, deferred contingent considerations and the debt component of convertible notes are measured subsequently at amortised cost. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

Financial liabilities at FVTPL, including those warrants issued which meet the definitions of a financial liability in accordance with the substance of the contractual arrangements, are initially measured at fair value and subsequently measured at fair value at each reporting date. Any gains or losses arise on changes in fair value are recognised in profit or loss to the extent that they are not part of a designated hedging relationship.

Convertible loan notes issued by the consolidated entity are classified as either financial liabilities or equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

A conversion option that will be settled by the exchange of a fixed amount of cash for a variable number of the Company's own equity instruments is considered a financial liability. The conversion features that fail the equity classification are accounted for as derivative financial liabilities, and are accounted for separately from their host debt component. Derivatives financial liabilities are recognised initially at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately.

A conversion option that will be settled by the exchange of a fixed amount of cash for a fixed number of the Company's own equity instruments is considered an equity component. The conversion feature classified as equity is not required to be revalued at each reporting date.

The option derivatives embedded in the convertible notes are assessed to determine whether it is to be separated from its debt host contract on the basis of the stated terms of the option feature. The debt component of convertible notes is subsequently measured at amortised cost as described above. The effective interest charged on the debt host contract is reported in corporate finance costs.

TRANSACTION COSTS

Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components (if any) in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognised directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortised over the lives of the convertible notes using the effective interest method.

DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES

The consolidated entity derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the consolidated entity neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the consolidated entity recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the consolidated entity retains substantially all the risks and rewards of ownership of a transferred financial asset, the consolidated entity continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in an equity instrument which the consolidated entity has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

The consolidated entity derecognises financial liabilities when, and only when, the consolidated entity's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

CUSTOMER RECEIVABLES AND OTHER RECEIVABLES

Customer receivables are non-derivative financial assets which are measured at amortised cost using the effective interest method, less any impairment. Refer to Note 12 for further details of customer receivables and impairment of such financial assets.

The consolidated entity applies a simplified approach in calculating the ECLs for other receivables based on lifetime expected credit losses. Other receivables that are at risk of non-recovery are written off. The provision for expected credit losses related to other receivables was nil (2020: nil).

Notes to the Financial Statements

Continued

O. ISSUED CAPITAL

Ordinary shares are classified as equity and are carried at cost.

Incremental costs directly attributable to the issue of new shares or options classified as equity are shown in equity as a deduction from the proceeds.

P. INCOME TAX

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and any adjustment recognised for prior periods, where applicable.

Where uncertainty exists over the income tax treatments of certain tax positions, an assessment of each uncertain tax position is made based on whether it is considered probable that the relevant taxation authority will accept the position. Where it is not probable, the effect of the uncertainty is reflected in determining the relevant taxable profit or loss, tax bases, unused tax losses and unused tax credits or tax rates. The consolidated entity has assessed the impact of the interpretation and does not believe that there are any uncertain tax positions for which the consolidated entity is required to reflect a different tax treatment in determining both current and deferred taxes.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

TAX CONSOLIDATION LEGISLATION

Zip Co Limited and its wholly-owned Australian controlled subsidiaries are members of a tax-consolidated group under Australian tax law. Zip Co limited is the head entity within the tax-consolidated group.

In addition to its own current and deferred tax amounts, the head entity also recognises the current tax liabilities and assets and deferred tax assets arising from unused tax losses and relevant tax credits of the members of the tax-consolidated group.

Amounts payable or receivable under the tax-funding arrangement between the head entity and the entities in the tax consolidated group are determined using a 'separate taxpayer within group' approach to determine the tax contribution amounts payable or receivable by each member of the tax-consolidated group. This approach results in the tax effect of transactions being recognised in the legal entity where that transaction occurred and does not tax effect transactions that have no tax consequences to the group. The same basis is used for tax allocation within the tax-consolidated group.

Q. EARNINGS PER SHARE

BASIC EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to the owners of Zip Co Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

DILUTED EARNINGS PER SHARE

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

R. RECOVERABLE AMOUNT OF ASSETS

The carrying amounts of assets other than financial instruments and goodwill are reviewed by the Directors where there is an impairment indicator to ensure they are not in excess of the recoverable amounts. The expected net cash flows are discounted to present values in determining recoverable amounts.

S. GOODS AND SERVICES (GST) AND OTHER SIMILAR TAXES

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable.

The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

T. GOVERNMENT GRANTS/RESEARCH AND DEVELOPMENT TAX INCENTIVES

Grants from the government (such as research and development tax incentives) are recognised at their fair value where there is a reasonable assurance that the grant will be received and the consolidated entity will comply with all attached conditions.

Government grants are initially recognised as deferred income and are recognised in the profit or loss on a systematic basis over the useful life of the underlying asset.

U. PARENT ENTITY INFORMATION

In accordance with the *Corporations Act 2001*, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in Note 29.

Notes to the Financial Statements

Continued

V. FOREIGN CURRENCIES

In preparing the consolidated financial statements of the consolidated entity, the results and financial position of each group entity are expressed in Australian dollars, which is the functional currency of the consolidated entity and the presentation currency for the consolidated financial statements.

Transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the consolidated entity's foreign operations are translated at exchange rates prevailing on the reporting date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in a foreign exchange translation reserve and may be subsequently reclassified to profit and loss in future reporting period.

NOTE 2: SEGMENT INFORMATION

An operating segment is a component of an entity engaging in business activities from which it may earn revenue and incur expenses, whose operating results are reviewed and used by the Chief Operating Decision Makers (CODM) in assessing performance and in determining the allocation of resources. Intersegment loans are eliminated on consolidation and there is no aggregation of operating segments.

The consolidated entity had three operation segments being Zip AU, Zip Global and Zip Business (formerly Spotcap) in the financial year ended 30 June 2020 and 30 June 2021. The operating segments may change in the future as the consolidated entity continues to re-assess its operating model, reporting systems, and the financial information presented to the CODM for decision making purposes. The consolidated entity has the following operating segments and the results of each segment are reported in the table that follows:

ZIP AU	Offers BNPL line of credit products to consumers in Australia through its Zip digital wallets and includes the consolidated entity's Pocketbook operations.
Zip Global	Offers BNPL instalment products to consumers outside of Australia.
Zip Business	Provides unsecured loans and lines of credit to small and medium-sized businesses.

YEAR ENDED 30 JUNE 2021	ZIP AU \$'000	ZIP GLOBAL \$'000	ZIP BUSINESS \$'000	TOTAL \$'000
Operating income	207,233	178,931	10,904	397,068
Cost of sales	(131,510)	(121,350)	(6,312)	(259,172)
Gross profit	75,723	57,581	4,592	137,896
Other income	322	125	4	451
Operating expenses	(105,297)	(108,861)	(8,885)	(223,043)
Segment EBTDA (excluding corporate items)	(29,252)	(51,155)	(4,289)	(84,696)
Depreciation of right-of-use assets	(2,918)	(1,012)	-	(3,930)
Depreciation of PP&E	(1,737)	(96)	(9)	(1,842)
Amortisation of intangibles	(11,229)	(74,759)	(8)	(85,996)
Segment loss before income tax	(45,136)	(127,022)	(4,306)	(176,464)
Reconciling items from operating to statutory loss:				
Employee remuneration related share-based payments				(141,085)
Other share-based payments				(1,758)
Acquisition of business costs				(9,938)
Share of loss of associates				(753)
Fair Value loss on financial instruments				(77,613)
Effective interest charged on convertible notes				(10,168)
Net adjustment relating to acquisition of QuadPay				(306,235)
Loss before income tax				(724,014)

Notes to the Financial Statements

Continued

YEAR ENDED 30 JUNE 2020	ZIP AU \$'000	ZIP GLOBAL \$'000	ZIP BUSINESS \$'000	TOTAL \$'000
Operating income	150,152	2,549	7,369	160,070
Cost of sales	(99,128)	(1,859)	(6,726)	(107,713)
Gross profit	51,024	690	643	52,357
Other income	871	2	58	931
Operating expenses	(66,918)	(6,022)	(4,551)	(77,491)
Segment EBTDA (excluding corporate items)	(15,023)	(5,330)	(3,850)	(24,203)
Depreciation of right-of-use assets	(2,477)	-	-	(2,477)
Depreciation of PP&E	(1,470)	(33)	(13)	(1,516)
Amortisation of intangibles	(5,839)	(2,439)	(767)	(9,045)
Segment loss before income tax	(24,809)	(7,802)	(4,630)	(37,241)
Reconciling items from operating to statutory loss:				
Employee remuneration related share-based payments				(8,191)
Other share-based payments				(12,202)
Acquisition of business costs				(10,273)
Share of loss of associate				(187)
Fair value gain on financial instruments				47,505
Loss before income tax				(20,589)

NOTE 3: REVENUE

	CONSOLIDATED	
	30 JUNE 2021 \$'000	30 JUNE 2020 \$'000
Operating income		
Portfolio interest income	347,394	159,373
Transactional income	49,674	697
Total operating income	397,068	160,070
Other income		
Finance income	187	107
R&D tax incentives	-	392
Other	264	432
Total other income	451	931
Total revenue	397,519	161,001

NOTE 4: EXPENDITURE

	30 JUNE 2021 \$'000	30 JUNE 2020 \$'000
Loss before income tax includes the following specific expenses:		
Administration expenses:		
Professional services	14,885	4,071
Other administration expense	12,162	5,861
Total administration expenses	27,047	9,932
Depreciation expense:		
Depreciation of property, plant and equipment	1,842	1,516
Depreciation of right-of-use assets	3,930	2,477
Total depreciation expense	5,772	3,993
Amortisation of intangibles:		
Amortisation of acquired intangibles	34,238	2,007
Write-off of acquired intangibles ¹	42,570	1,900
Amortisation of internally generated IT development and software	9,188	5,138
Total amortisation of intangibles	85,996	9,045
Corporate financing costs:		
Effective interest charged on convertible notes	10,168	-
Interest on leasing liabilities	244	253
Other finance costs	384	264
Total corporate financing costs	10,796	517
Share-based payments:		
Employee remuneration related share-based payments ²	141,085	8,191
Recognition of Amazon warrants (Note 22)	1,758	7,202
Provision of marketing and promotional services	-	5,000
Total share-based payments	142,843	20,393
Fair value loss (gain) on financial instruments:		
Fair value loss on convertible notes and warrants (Note 6)	82,049	-
Fair value gain on investment at FVTPL (Note 13)	(4,436)	(47,505)
Fair value loss (gain) on financial instruments	77,613	(47,505)

1. The acquired QuadPay brand of \$42.6 million was written off as a result of the business re-branding to Zip during the financial year ended 30 June 2021. The acquired PartPay brand of \$1.9 million was written off as a result of the business re-branding to Zip during the financial year ended 30 June 2020.

2. Includes \$102.7 million in the current period in relation to Tenure and Performance Consideration Shares issued to the QuadPay Founders (refer to Note 22), and short and long-term incentives provided to employees.

Notes to the Financial Statements

Continued

NOTE 5: INVESTMENTS IN ASSOCIATES

	CONSOLIDATED \$'000
Balance at 30 June 2020	1,184
Additional investments	6,575
Share of loss of associates	(753)
Balance at 30 June 2021	7,006

The associates of the consolidated entity as at 30 June 2021 are detailed in the following table. The entities listed below have share capital consisting solely of ordinary shares, which are held directly by the consolidated entity's controlled subsidiaries. The country of incorporation or registration is also their principal place of business, and the proportion of ownership interest is the same as the proportion of voting rights held.

ENTITY	% OF OWNERSHIP INTEREST		NATURE OF RELATIONSHIP	MEASUREMENT METHOD	CARRYING AMOUNT	
	2021 %	2020 %			2021 \$'000	2020 \$'000
Payflex	26.25%	25.25%	Associate	Equity Method	981	1,184
Spotii	20.00%	-	Associate	Equity Method	2,810	-
Tendo	25.00%	-	Associate	Equity Method	3,215	-
Total investments in associates					7,006	1,184

PAYFLEX

At 30 June 2021, the consolidated entity held a 26.25% interest in Payflex, a provider of BNPL services to consumers in South Africa, being the 25.25% interest held at 30 June 2020 and a further 1.0% interest acquired in July 2020 for an investment of \$0.14 million. At 30 June 2021, the consolidated entity continued to account for the investment in Payflex as an associate due to the consolidated entity's ability to exercise significant influence.

For the year ended 30 June 2021, the consolidated entity recognised its share of loss of Payflex amounting to \$0.39 million. The carrying amount of the consolidated entity's investment in Payflex at 30 June 2021 was reported at \$0.98 million, being the cost of the investment less its share of loss during the current financial year and an unrealised foreign exchange gain on the investment of \$0.05 million.

Subsequent to the year end, the consolidated entity announced its intention to acquire the remaining 73.75% interest in Payflex that Zip does not already own, comprising the Upfront Consideration, BEE Holdback Amount and Deferred Consideration. Refer to Note 32 for details.

SPOTII

On 24 December 2020, the consolidated entity invested \$3.13 million to acquire a 20% interest in Spotii – a leading tech enabled payments platform operating in the Middle East. The consolidated entity has accounted for the investment as an associate due to the consolidated entity's ability to exercise significant influence.

The consolidated entity initially measured the investment at cost, being the fair value upon acquisition of \$3.13 million.

For the year ended 30 June 2021, the share of loss in Spotii was \$0.25 million. An unrealised foreign exchange loss of \$0.07 million on the investment resulted in the carrying amount of consolidated entity's investment in Spotii being recorded at \$2.81 million.

On 24 May 2021, Zip announced its intention to acquire the remaining equity stake in Spotii that Zip does not own for an amount of US \$16.0 million, implying an enterprise value of \$US20.0 million. The completion date is subject to the condition precedents to the acquisition, including the issuance of Zip's shares, or payment in cash, to satisfy the purchase consideration, which is expected to occur in the quarter ending 30 September 2021.

TENDO

On 20 April 2021, the consolidated entity invested \$3.22 million to acquire a 25.00% interest in Tendo – a start-up providing instalment payment options for e-commerce customers in the Philippines. The consolidated entity has accounted for the investment as an associate due to the consolidated entity's significant influence and initially measured the investment at cost, being the fair value upon acquisition of \$3.22 million.

For the year ended 30 June 2021, the share of loss of Tendo was \$0.11 million. An unrealised foreign exchange gain of \$0.11 million on the investment resulted in the carrying amount of the consolidated entity's investment in Tendo being recorded at \$3.22 million at 30 June 2021.

NOTE 6: FINANCIAL LIABILITIES – CONVERTIBLE NOTES AND WARRANTS

ISSUANCE OF CONVERTIBLE NOTES AND WARRANTS ON 1 SEPTEMBER 2020:

	ISSUE DATE	EXPIRY DATE	CONVERSION PRICE	NUMBER ISSUED
Convertible Notes	1 September 2020	1 September 2025	See in this note	1,000
Warrants	1 September 2020	1 September 2023	See in this note	19,365,208

On 1 September 2020, Zip issued 1,000 convertible notes and 19,365,208 warrants to CVI Investments, Inc. (CVI), an affiliate of Heights Capital Management, which is part of the US-based Susquehanna International Group. The convertible notes issued to CVI (referred to Susquehanna Convertible Notes) have a face value of \$100,000 each. The convertible notes bear interest payable semi-annually at a fixed amount of \$0.75 million.

The conversion price of the convertible notes varies based on movements in Zip's share price subject to a floor and a ceiling price.

The initial conversion price was \$5.5328, representing a 50% premium to the 1-day volume weighted average price (VWAP) of Zip's shares on the Australian Stock Exchange (ASX) on 29 May 2020 (the last trading day prior to the announcement of the Convertible Note Raising). The conversion price resets semi-annually to a price equal to 93% of the then prevailing current market price of Zip's shares on the ASX, subject to a minimum price of \$1.8443 ("Floor Price") and a maximum price equal to the initial conversion price of \$5.5328 ("Ceiling Price").

At each Instalment date (commencing on the date falling 6 months after 1 September 2020 and every 6 months thereafter up to and including the maturity date on 1 September 2025), the Noteholder has the option to elect, in respect of \$10.0 million of the convertible notes, together with any previously deferred amounts and any accrued and unpaid interest, to either:

- defer the conversion of the instalment amount to a later Instalment date (up until the maturity date); or
- subject to certain conditions being met, to convert the instalment amount into Zip's shares.

The convertible notes may be converted into a maximum of 58,302,282 fully paid ordinary shares, based on a conversion price of 1.8443 per share, being the floor price under the terms of the Susquehanna Convertible Notes (unless the floor price is adjusted in accordance with the terms of the agreement).

The convertible notes may be settled by the exchange of a fixed amount of cash for a variable number of Zip's own equity instruments and therefore it is classified as a financial liability. The convertible notes includes a debt component which is reported as a financial liability measured at amortised cost and a conversion option which is considered an embedded derivative measured at FVTPL.

The warrants issued to CVI were issued for nil consideration and with an exercise price being the lower of \$5.1639 and the price of any equity securities (excluding issues for prescribed business as usual and agreed strategic transactions) in the period to September 2023. The warrants issued to CVI are classified as financial liabilities measured at FVTPL.

Notes to the Financial Statements

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In conjunction with independent valuers, Zip has fair valued the derivative embedded in the convertible notes agreement, and the warrants, with the residual value being the fair value of the underlying debt component of the convertible notes at the date of inception (1 September 2020). The fair values were assessed based on Zip's share price at the time the respective agreements were struck, which is considered a fair and true reflection of the fair values at the time of the transaction.

The fair value of the embedded derivative included in the convertible notes recorded on issuance was \$21.7 million and the fair value of the warrants was \$17.2 million. The debt component was recorded at \$61.1 million (\$59.2 million net of transaction costs). During the financial year ended 30 June 2021, no convertible notes have been converted.

The embedded derivative and the warrants have also been revalued at 30 June 2021 in accordance with Accounting Standard AASB 9 *Financial Instruments*. Following the revaluation at 30 June 2021, Zip has reported a financial liability in relation to the underlying debt component of the convertible notes of \$65.3 million, and the embedded derivative and warrants issued have been valued at fair values of \$60.6 million and \$60.3 million respectively using the Black Scholes option valuation model. The fair values have been based on a closing Zip's share price at 30 June 2021 of \$7.57, volatility of 45%, and a risk free rate of 0.7% for the embedded derivative, and 0.1% for the warrants. The different risk free rates reflect the different expiry dates of the instruments.

A fair value loss of \$82.0 million has been recorded, being the movement in the fair values of the embedded derivative and warrants between 1 September 2020 and 30 June 2021.

Transaction costs have been apportioned to the debt host component, the embedded derivative, and the warrants.

The portion attributed to the embedded derivative and warrants is immediately expensed. For the portion of transaction costs that are attributed to the debt host component, these are included in the consideration of the carrying amount of the financial liability and are amortised as part of effective interest.

The interest expense for the year on the convertible notes is calculated using the effective interest method so that on maturity, the carrying amount is equal to the principal repayment that could be required to be made. On this basis, an effective interest rate of 12.7% has been applied to the debt host liability component for the ten month period since the convertible notes were issued. The debt host liability component is measured at amortised cost. The difference between the carrying amount of the liability component at the date of issue and the amount reported at 30 June 2021 represents the effective interest rate less interest paid between those dates.

NET PROCEEDS FROM ISSUE OF SUSQUEHANNA CONVERTIBLE NOTES AND WARRANTS:

1 SEPTEMBER 2020	\$'000
Proceeds of the issue of convertible notes and warrants	100,000
Transaction costs – recognised as expenses	(1,236)
Transaction costs – attributed to debt component	(1,940)
Net proceeds from issue of Susquehanna Convertible Notes and Warrants	96,824

FAIR VALUES OF FINANCIAL INSTRUMENTS AT INITIAL RECOGNITION:

1 SEPTEMBER 2020	\$'000
Convertible notes – debt component (net of transaction costs)	59,152
Convertible notes – embedded derivative	21,698
Financial liability – warrants	17,210

ISSUANCE OF CONVERTIBLE NOTES ON 23 APRIL 2021:

ISSUE DATE	EXPIRY DATE	CONVERSION PRICE	NUMBER ISSUED
23 April 2021	23 April 2028	See below	2,000
Total			2,000

Zip issued a \$400.0 million zero coupon senior convertible note (Referred as Senior Convertible Notes) on 23 April 2021.

The Senior Convertible Notes are listed on the Singapore Securities Trading Exchange (SGX-ST), have a 7 year maturity with an option for investors to put the notes back to Zip after 4 years at 109.36% of the principal amount. The Yield is 2.25% per annum calculated on a semi-annual basis. At maturity, note holders have the option of converting the notes into Zip's ordinary shares at a share price of \$12.39 (adjusted in accordance with standard anti-dilutive provisions) or redeeming the notes at 116.96% of the principal amount. If all the Senior Convertible Notes are converted into Zip's ordinary shares, a maximum of 32,284,901 ordinary shares will be issued, subject to adjustment in accordance with the terms and conditions of the Senior Convertible Notes. No Senior Convertible Notes had been converted as at 30 June 2021.

The Senior Convertible Notes contain two components, being a debt contract and a separate conversion feature. The debt contract is classified as a financial liability measured at amortised cost and the conversion feature is classified as equity in accordance with AASB 132. The investor put option is not separated and is accounted as part of the debt host contract at amortised cost.

On initial recognition, the fair value of the debt component was recorded at \$283.8 million (\$279.7 million net of transaction costs), being the contractual cash flows discounted at an interest rate of 7.4% (7.6% net of transaction costs) that would apply to a note without a conversion feature. The equity component of the conversion feature was recorded at \$116.2 million (\$114.5 million net of transaction costs), being the fair value of the Senior Convertible Notes as a whole (net of transaction costs) less the fair value of the debt component.

Transaction costs have been apportioned to the debt and the equity components. The transaction costs that are attributed to the debt component, are included in the consideration of the carrying amount of the financial liability and are amortised as part of effective interest. Transaction costs attributed to the equity component are accounted for as a deduction from equity component.

Zip has reported a financial liability in relation to the underlying debt component of the Senior Convertible Notes of \$283.7 million at 30 June 2021, comprising the value of debt component of \$279.7 million at initial recognition and accrued effective interest of \$4.0 million. The equity component is reported at \$114.5 million at 30 June 2021, which is in accordance with AASB 9 that Zip is not required to revalue the conversion feature recorded as equity at each reporting date.

NET PROCEEDS FROM ISSUE OF SENIOR CONVERTIBLE NOTES:

23 APRIL 2021	\$'000
Proceeds of the issue of Senior Convertible Notes	400,000
Transaction costs – attributed to debt component	(4,148)
Transaction costs – attributed to equity component	(1,698)
Net proceeds from issue of Senior Convertible Notes	394,154

FAIR VALUE OF FINANCIAL LIABILITY AND EQUITY AT INITIAL RECOGNITION:

23 APRIL 2021	\$'000
Senior Convertible Notes – debt component (net of transaction costs)	279,688
Senior Convertible Notes – equity component (net of transaction costs)	114,466

Notes to the Financial Statements

Continued

RECONCILIATION OF FINANCIAL IMPACT OF ISSUE OF THE CONVERTIBLE NOTES AND WARRANTS

	FINANCIAL LIABILITY — EMBEDDED DERIVATIVE \$'000	FINANCIAL LIABILITY — WARRANTS \$'000	FINANCIAL LIABILITY — NET DEBT HOST \$'000	TOTAL FINANCIAL LIABILITIES — CONVERTIBLE NOTES AND WARRANTS \$'000	CONVERTIBLE NOTES — EQUITY \$'000
30 June 2020	-	-	-	-	-
Issued during the period	21,698	17,210	338,840	377,748	114,466
Effective interest on convertible notes	-	-	10,168	10,168	-
Fair value loss recognised	38,945	43,104	-	82,049	-
30 June 2021	60,643	60,314	349,008	469,965	114,466

NOTE 7: ACQUISITIONS

A. SUMMARY OF ACQUISITION

QUADPAY

On 31 August 2020, the consolidated entity increased its ownership interest in QuadPay, Inc.(QuadPay), a leading high growth BNPL player in the United States to 100%, acquiring the 85.91% of QuadPay that it did not already own. Upon acquisition, the consolidated entity acquired a 100% interest in the following entities:

- QuadPay, Inc;
- QuadPay Pty Ltd;
- QuadPay AR1 LLC;
- AR2 Holdco LLC;
- AR2 LLC;
- QuadPay Canada Holdings, Inc.; and
- QuadPay ULC.

Total consideration for the acquisition of QuadPay comprised:

- Cash consideration of \$1.1 million;
- 118,776,189 new Zip Co Limited shares issued, valued at \$1,088 million, based on an issue price of \$9.16, the closing price on the day shareholders approved the acquisition; and
- Replacement options issued to employees and other option holders of QuadPay valued at \$85.3 million.

The replacement options issued to employees were valued at \$30.2 million, with \$21.4 million included in consideration above, and the balance of \$8.8 million will be expensed over the remaining vesting period.

The fair value of the tangible assets and liabilities of QuadPay included in the net assets acquired were considered to be equal to their pre-acquisition book value, as described in this note. Intangible assets were not recognised prior to acquisition. In accordance with AASB 3, the fair values of intangible assets were recognised, as detailed in the table in this note.

URGE

On 26 October 2020, the consolidated entity acquired a 100% interest in Sydney-based technology company, Urge Holdings Pty Ltd (Urge). Urge helps shoppers to find and buy the items they are looking for, driving increased sales, reach and exposure for its retail partners. Upon the acquisition of Urge, the consolidated entity acquired a 100% interest in the following entities:

- Urge Holdings Pty Ltd;
- Urge Technologies Pty Ltd; and
- Schnap Pty Ltd.

Total consideration for the acquisition of Urge comprised:

- 432,516 new Zip Co Limited shares valued at \$2.8 million issued at an issue price of \$6.36.

The fair value of the tangible assets and liabilities of Urge included in the net assets acquired were considered to be equal to their pre-acquisition book value, as described in this note. Intangible assets were not recognised prior to acquisition. In accordance with AASB 3, the fair values of intangible assets were recognised, as detailed in the table in this note.

The initial accounting for the acquisitions of both QuadPay and Urge were provisionally determined at the end of the half year ended 31 December 2020 as detailed in the consolidated entity's half year report to 31 December 2020. Final accounting has been completed at 30 June 2021 which is within the required measurement period outlined in AASB 3 *Business Combinations*. No adjustments have been made to the initial accounting.

Management determined the acquisition dates as the dates on which the Company obtained control over the acquired entities.

The amounts of revenue and profit or loss of QuadPay and Urge since the acquisition dates are included in the Consolidated Statement of Profit or Loss and Other Comprehensive Income for the reporting period.

Goodwill recognised on the acquisition of QuadPay and Urge has been calculated as the consideration transferred less the fair value of net assets acquired, and reflects the growth potential of the acquired entities.

Acquisition-related costs totalling \$5.7 million have been excluded from the consideration transferred and have been recognised as an expense in profit or loss in the financial year ended 30 June 2021.

Notes to the Financial Statements

Continued

Details of the acquisitions are as below:

	QUADPAY AUGUST 2020 \$'000	URGE OCTOBER 2020 \$'000	TOTAL \$'000
Cash and cash equivalents	27,290	3	27,293
Customer receivables	60,409	-	60,409
Other receivables	4,562	2	4,564
Trade and other payables	(13,367)	(652)	(14,019)
Borrowings	(50,384)	-	(50,384)
Deferred tax liabilities	(65,959)	-	(65,959)
Acquired brand name	42,570	-	42,570
Acquired IT development and software	126,460	2,731	129,191
Acquired transacting partner database	84,655	-	84,655
Goodwill ¹	1,150,736	667	1,151,403
Acquisition date value of the total consideration transferred	1,366,972	2,751	1,369,723
Representing:			
Zip Co Limited pre-existing investment	192,606	-	192,606
Zip Co Limited shares issued to vendor	1,087,990	2,751	1,090,741
Zip Co Limited options issued allocated to consideration	85,292	-	85,292
Cash paid to vendor	1,084	-	1,084
Total	1,366,972	2,751	1,369,723
Cash used to acquire business, net of cash acquired:			
Acquisition date value of the total consideration transferred	1,366,972	2,751	1,369,723
Less: cash and cash equivalent acquired	(27,290)	(3)	(27,293)
Less: Zip Co Limited shares issued to vendor	(1,087,990)	(2,751)	(1,090,741)
Less: Zip Co Limited options issued allocated to consideration	(85,292)	-	(85,292)
Less: Zip Co Limited pre-existing investment	(192,606)	-	(192,606)
Payments for acquisitions, net of cash acquired	(26,206)	(3)	(26,209)

1. None of the goodwill is expected to be deductible for tax purpose.

B. QUADPAY ACQUISITION FAIR VALUE ADJUSTMENTS

In accordance with the requirements of AASB 3 *Business Combinations* and AASB 13 *Fair Value Measurement*, the acquisition price for QuadPay must be based on Zip's share price of \$9.16 on the date it obtained control of QuadPay, being 31 August 2020. Accordingly, Zip revalued its pre-existing shareholding in QuadPay, and valued the equity and replacement options issued to acquire the remaining shareholding based on a share price of \$9.16.

The directors do not consider that the fair value at the acquisition date of the equity instruments granted for the purchase of QuadPay, as measured per AASB 13, is reflected in the subsequent equity value of the instruments granted or the underlying assets acquired, and accordingly in conjunction with independent valuers, the directors determined that a Day 1 adjustment should be made to the carrying value of goodwill.

The Day 1 adjustment was calculated based on an independent valuation and equated to a share price of \$6.50 (compared to \$9.16 at acquisition date), which aligned to Zip's VWAP (volume-weighted average price) over a period up to and including the 31 August 2020.

The adjustment is reflective of management's view during a period of volatility in Zip's share price, that the share price on a particular day may not be representative of its fair value, and therefore in this instance a Day 1 fair value adjustment was reflected in goodwill of \$415.9 million.

On the acquisition of QuadPay, Zip derecognised its investment in QuadPay (as set out in Note 13) and in accordance with AASB 3 revalued its investment to its fair value as determined by AASB 13 *Fair Value Measurement*. This revaluation, based on a share price of \$9.16, increased the valuation of Zip's existing investment pre-acquisition to \$192.6 million. This resulted in a fair value gain of \$109.7 million for Zip's existing investment in QuadPay on acquisition.

The goodwill adjustment of \$415.9 million was offset by the fair value gain on the pre-existing interest in QuadPay of \$109.7 million. As a result, Zip reported a one off net adjustment relating to the acquisition of QuadPay of \$306.2 million.

The fair market value of Zip's investment in QuadPay following the net adjustment relating to the acquisition of QuadPay is \$951.0 million, including both Zip's existing investment prior to acquisition, and the acquisition of the shares it did not already own. The consolidated entity has recorded goodwill of \$734.8 million in relation to the acquisition of QuadPay at 31 August 2020 on this basis (Refer to Note 17).

The once off adjustment relating to the acquisition of QuadPay is summarised in the following tables:

	31 AUGUST 2020 \$'000
Goodwill recorded at Zip's acquisition date share price	1,150,736
Share value not reflected in goodwill	(415,910)
Goodwill recorded at fair value of consideration transferred	734,826

	31 AUGUST 2020 \$'000
Fair value of pre-existing investment on acquisition	192,606
Less: carrying value of investment pre-acquisition	(82,931)
Fair value gain on investment on acquisition	109,675

Net adjustment relating to the acquisition of QuadPay:

	31 AUGUST 2020 \$'000
Share value not reflected in goodwill	(415,910)
Fair value gain on investment on acquisition	109,675
Net adjustment relating to the acquisition of QuadPay	(306,235)

Notes to the Financial Statements

Continued

NOTE 8: INCOME TAX

	CONSOLIDATED	
	30 JUNE 2021 \$'000	30 JUNE 2020 \$'000
Numerical reconciliation of income tax benefit and tax at the statutory rate		
Loss before income tax benefit	(724,014)	(20,589)
Tax at the statutory tax rate of 30%	(217,204)	(6,177)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Share-based payments	5,663	6,118
Non-deductible expenses	3,673	1,536
Non-assessable fair value gain	(33,745)	-
R&D tax incentives	-	(118)
Net adjustment relating to the acquisition of QuadPay	124,773	-
Effect of different tax rates of subsidiaries operating in other jurisdictions	9,138	116
	(107,702)	1,475
Current year tax losses not recognised	26,527	4,136
Movement in temporary differences not recognised	56,795	(6,259)
Movement in temporary differences recognised	(40,860)	-
	(65,240)	(648)

NOTE 9: LOSS PER SHARE

A. RECONCILIATION OF EARNINGS USED IN CALCULATING LOSS PER SHARE

	30 JUNE 2021 \$'000	30 JUNE 2020 \$'000
Loss attributable to the owners of the consolidated entity used in calculating basic and diluted loss per share	(658,774)	(19,941)

B. WEIGHTED AVERAGE NUMBER OF SHARES USED AS THE DENOMINATOR

	30 JUNE 2021 '000	30 JUNE 2020 '000
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share	514,034	375,617

C. BASIC AND DILUTED LOSS PER SHARE

	30 JUNE 2021 CENTS	30 JUNE 2020 CENTS
Basic loss per share	(128.16)	(5.31)
Diluted loss per share ¹	(128.16)	(5.31)

1. As the consolidated entity reported losses for the financial year ended 30 June 2021 and 30 June 2020, no dilutive shares have been included in the EPS calculation.

NOTE 10: CASH AND CASH EQUIVALENTS

At 30 June 2021, the consolidated entity had cash of \$330.2 million of which \$41.0 million was restricted cash (30 June 2020: cash of \$32.7 million of which \$8.4 million was restricted cash). Cash held in corporate accounts, considered as unrestricted, includes amounts subsequently remitted to securitisation warehouses and special purpose vehicles post year end (30 June 2021: \$22.9 million; 30 June 2020: \$15.1 million). Restricted cash is held by the securitisation warehouses and special purpose vehicles and is not available to pay creditors of the consolidated entity.

RECONCILIATION OF LOSS AFTER INCOME TAX TO NET CASH FROM OPERATING ACTIVITIES

	30 JUNE 2021 \$'000	30 JUNE 2020 \$'000
Loss after income tax benefit for the year	(658,774)	(19,941)
Adjustments for:		
Depreciation and amortisation expense	91,768	13,038
Bad debts and expected credit losses	123,881	53,669
Share-based payments	142,843	20,393
Share of loss of associate	753	187
Fair value movements on financial instruments	77,613	(47,505)
Net adjustment relating to the acquisition of QuadPay	306,235	-
Effective interest charged on convertible notes	10,168	-
Transaction costs on financial instruments	1,236	-
Change in operating assets and liabilities:		
Increase in other receivables	(25,916)	(6,261)
Increase in other payables	37,187	936
Increase in employee provisions	3,188	1,152
Decrease in R&D tax incentives	-	(392)
Movement in deferred tax balances	(65,959)	(648)
Net cash from operating activities	44,223	14,628

NOTE 11: OTHER RECEIVABLES

	30 JUNE 2021 \$'000	30 JUNE 2020 \$'000
Prepayments	13,884	2,306
Accrued income	11,614	505
Other	7,221	4,064
Total	32,719	6,875

Notes to the Financial Statements

Continued

NOTE 12: CUSTOMER RECEIVABLES

AASB 9 FINANCIAL INSTRUMENTS

Under AASB 9, customer receivables are initially recognised at fair value. Subsequently, they are classified and measured at amortised cost as:

- The consolidated entity provides accounts with lines of credit and instalments products to customers, and the business model is to hold such accounts and collect contractual cash flows until the account is closed. There have been no historic sales and there are no current plans to sell the accounts for fair value gains; and
- The contractual terms of the accounts give rise on specified dates to cash flows that are solely payments of principal and “effective interest” and when providing lines of credit permit customers to vary the dates and frequency of payments.

IMPAIRMENT

AASB 9 requires recognition of expected credit losses based on unbiased forward-looking information and is applicable to all financial assets at amortised cost and loan commitments. The guidance requires assets to be classified into the following three stages:

- **Stage 1:** instruments that have not had a significant increase in credit risk since initial recognition or that have low credit risk at the reporting date. For these assets, 12-month expected credit losses (ECL) are recognised and “effective interest” revenue is calculated on the gross carrying amount of the asset. 12-month ECL are the expected credit losses that result from default events that are expected within 12 months after the reporting date.
- **Stage 2:** instruments that have experienced a significant increase in credit risk since initial recognition but that do not have objective evidence of impairment. For these assets, lifetime ECL are recognised, but “effective interest” revenue is still calculated on the gross carrying amount of the asset. Lifetime ECL are the expected credit losses that result from all possible default events over the expected life of the financial instrument.
- **Stage 3:** includes financial assets that have objective evidence of impairment at the reporting date. For these assets, lifetime ECL are recognised and “effective interest” revenue is calculated on the net carrying amount.

EXPECTED CREDIT LOSSES

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted based on forward-looking information as described below. The exposure at default is estimated on gross customer receivables at the reporting date, adjusted for expected repayments and future drawdowns up to the point the exposure is expected to be in default.

SIGNIFICANT INCREASE IN CREDIT RISK SINCE INITIAL RECOGNITION

The provisioning model utilises customer receivables 30 days past due for its line of credit products or 14 days past due for its instalment products, and customer receivables in hardship cases (customer receivables are past due under normal repayment terms and the repayment terms have been renegotiated) as criteria to identify significant increases in credit risk.

DEFINITION OF DEFAULT AND CREDIT — IMPAIRED ASSETS

Where there has been objective evidence of impairment for a loan receivable, the allowance will be based on lifetime expected credit losses. A loan receivable will be considered in default at 90 days past due for its line of credit products or 42 days past due for its instalments products, and/or when the consolidated entity is unlikely to receive the outstanding contractual amount in full based on internal or external indicators.

WRITE-OFF POLICY

The consolidated entity's policy is to write-off balances that are outstanding for over 180 days for its line of credit products or 84 days for its instalment products, in accordance with historical experience and industry practice. The consolidated entity's instalment product has a short-term duration for customer repayments, being up to 42 days.

PROVISIONING MODEL

In determining the appropriate level of provision for expected credit losses, the consolidated entity has considered receivables attributable to each of its product offerings separately and also aggregated by segment in this note.

For each classification of receivable, the consolidated entity has applied historic roll rates (the percentage of receivables that move into the next ageing bucket), averaged over a 12 month period, to the credit limits of those customers that are considered current and to the respective receivable balances for those customers accounts over 30 days past due.

Accordingly, under the requirements of AASB 9, a provision has been recognised for performing customer receivables to the extent that expected lifetime losses emerge within a 12-month period by applying historical roll rates to the credit facility limits. For customers overdue, historical roll rates are applied to the overdue balances over the expected life of the credit facility to determine an amount of expected credit losses.

In the assessment of the provision for expected credit losses at 30 June 2021, management took into consideration all available information relevant to the assessment, including information about past events, current economic conditions and reasonable and supportable information about future events and economic conditions at the report date.

PROVISION OVERLAY

An allowance for debt recoveries is applied to the resulting estimated exposure at default and an economic overlay is added to include forward-looking macro-economic and regulatory factors (including GDP, unemployment rate, and inflation rate) and modelling risks.

In the assessment of expected credit losses at 30 June 2021, management considered base, good and bad scenarios applying a weighted probability when determining the reported expected credit losses. The base scenario was assessed by applying the actual performance of the customer receivable book. The good and bad scenarios were assessed by applying upside/downside movements to key variables which could have a significant impact on the credit risk.

These variables include the probability of default, the rate of customer repayments, the customer repayment lifecycle and the bad debts recovery rate. The movement in these variables was supported by modelling macroeconomic scenarios based on forward looking information.

Forward-looking information considered in assessing macroeconomic scenarios included economic reports published by financial analysts, governmental bodies, and other similar organisations, including assessments of the outlook for the Australian and global economies that the consolidated entity operates in.

COVID-19 CONSIDERATION

As at 30 June 2021, the impact of COVID-19 still existed and its impact was considered in the assessment of the economic overlay.

Notes to the Financial Statements

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PROVISION OVERVIEW

From 30 June 2020 to 30 June 2021, the provision for expected credit losses increased by \$54.4 million (including \$5.0 million taken on the acquisition of QuadPay), which was primarily driven by the \$929.6 million increase in the value of receivables across the consolidated entity's operating segments.

The provision for expected credit losses as a percentage of receivables increased from 4.4% at 30 June 2020 to 5.0% at 30 June 2021, mainly due to a greater portion of receivables being generated by the instalment based product compared to the prior financial year.

The consolidated entity believes that the provision for expected credit losses, in accordance with AASB 9, is sufficient to address any potential write-offs arising from the current economic environment and will continue to maximise its effort to minimise the risk of actual bad debts through its robust debtor management practices. In the COVID-19 environment to date, Zip, through its strong credit risk management, has not experienced a material increase in actual bad debts write-offs as a percentage of consumer receivables.

The following table summarises customer receivables as at the reporting dates:

	ZIP AU \$'000	ZIP GLOBAL \$'000	ZIP BUSINESS \$'000	CONSOLIDATED \$'000
Gross customer receivables	1,143,033	1,892	37,055	1,181,980
Unearned future income	(12,379)	(179)	(785)	(13,343)
Provision for expected credit losses	(47,779)	(381)	(3,859)	(52,019)
Balance at 30 June 2020	1,082,875	1,332	32,411	1,116,618

	ZIP AU \$'000	ZIP GLOBAL \$'000	ZIP BUSINESS \$'000	CONSOLIDATED \$'000
Gross customer receivables	1,795,781	246,116	69,683	2,111,580
Unearned future income	(12,835)	(4,337)	-	(17,172)
Provision for expected credit losses	(81,349)	(22,016)	(3,007)	(106,372)
Balance at 30 June 2021	1,701,597	219,763	66,676	1,988,036

The following table summarises reconciliations of provision for expected credit losses in the reporting periods:

	ZIP AU \$'000	ZIP GLOBAL \$'000	ZIP BUSINESS \$'000	CONSOLIDATED \$'000
Balance at 30 June 2019	25,591	-	-	25,591
Taken on acquisition	-	46	551	597
Provided for the year	48,410	1,209	4,050	53,669
Receivables written-off during the year	(28,837)	(923)	(796)	(30,556)
Recoveries during the year	2,615	49	54	2,718
Balance at 30 June 2020	47,779	381	3,859	52,019
Taken on acquisition	-	5,002	-	5,002
Provided for the year	67,469	55,603	809	123,881
Receivables written-off during the year	(37,978)	(40,627)	(1,700)	(80,305)
Recoveries during the year	4,079	1,657	39	5,775
Balance at 30 June 2021	81,349	22,016	3,007	106,372

The consolidated entity's customer receivable balances are predominately high volume low value advances to individual customers. The following tables provides information about customer receivables classified into Stage 1 to Stage 3 and the provision provided for expected credit losses for each stage. As the consolidated entity's customer receivables are short-term in nature, the staging transfer disclosures have not been provided.

	ZIP AU \$'000	ZIP GLOBAL \$'000	ZIP BUSINESS \$'000	CONSOLIDATED \$'000
GROSS CUSTOMER RECEIVABLES				
Stage 1	1,102,069	1,710	22,409	1,126,188
Stage 2	30,827	105	13,756	44,688
Stage 3	10,137	77	890	11,104
Balance at 30 June 2020	1,143,033	1,892	37,055	1,181,980
PROVISION FOR EXPECTED CREDIT LOSSES				
Stage 1	(23,806)	(338)	(1,877)	(26,021)
Stage 2	(16,134)	(24)	(1,495)	(17,653)
Stage 3	(7,839)	(19)	(487)	(8,345)
Balance at 30 June 2020	(47,779)	(381)	(3,859)	(52,019)
	ZIP AU \$'000	ZIP GLOBAL \$'000	ZIP BUSINESS \$'000	CONSOLIDATED \$'000
GROSS CUSTOMER RECEIVABLES				
Stage 1	1,691,230	212,824	67,574	1,971,627
Stage 2	83,146	24,937	1,198	109,281
Stage 3	21,406	8,354	911	30,671
Balance at 30 June 2021	1,795,782	246,116	69,683	2,111,580
PROVISION FOR EXPECTED CREDIT LOSSES				
Stage 1	26,001	11,028	1,791	38,820
Stage 2	40,222	3,538	823	44,583
Stage 3	15,126	7,450	393	22,969
Balance at 30 June 2021	81,349	22,016	3,007	106,372

The following table provides information about customer receivables by payment past due status. Figures presented in the table differ from the staging table as the staging table is based on the assessment of credit risk which includes, but is not limited to past due status.

	CONSOLIDATED	
	30 JUNE 2021 \$'000	30 JUNE 2020 \$'000
Past due under 30 days	66,717	20,934
Past due 31 days to under 60 days	30,010	6,408
Past due 61 to under 90 days	20,909	5,396
Past due 91 to under 180 days	22,317	11,027

Notes to the Financial Statements

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The following table shows customer receivables and provision for expected losses presented based on the location of origination:

CUSTOMER RECEIVABLES	30 JUNE 2021 \$'000	30 JUNE 2020 \$'000
Australia	1,847,486	1,169,962
New Zealand	30,680	11,797
USA	228,416	-
United Kingdom	4,998	221
Balance	2,111,580	1,181,980

PROVISION FOR EXPECTED CREDIT LOSSES	30 JUNE 2021 \$'000	30 JUNE 2020 \$'000
Australia	(83,589)	(50,650)
New Zealand	(1,424)	(1,360)
USA	(19,691)	-
United Kingdom	(1,668)	(9)
Balance	(106,372)	(52,019)

Zip AU and Zip Global customer receivables are consumer based in nature and industry classification is not applicable.

The following table shows Zip Business customer receivables presented in their industry classification:

CUSTOMER RECEIVABLES AT 30 JUNE 2021	ZIP BUSINESS \$'000
Advertising	68
Architecture	74
Agriculture	2,721
Construction	6,071
Education	64
Financial	2,523
Hospitality	205
Manufacturing	9,886
Retail	19,246
Services	18,548
Telecommunications	50
Transportation	3,103
Wholesale	7,124
Balance at 30 June 2021	69,683

NOTE 13: INVESTMENTS AT FVTPL

	CONSOLIDATED \$'000
Balance at 30 June 2020	82,931
Derecognition on acquisition of QuadPay	(82,931)
Additional investments	14,488
Fair value gain on revaluation	4,436
Unrealised foreign exchange gain	110
Balance at 30 June 2021	19,034

At 30 June 2020, the investment in QuadPay was recorded at \$82.9 million as an investment measured at FVTPL, which represented the fair value of Zip's 14.09% interest in QuadPay. At the time of Zip's acquisition of the remaining 85.91% interest in QuadPay, Zip's existing investment was derecognised as Zip obtained control over QuadPay at the acquisition date of 31 August 2020. QuadPay became a fully owned subsidiary of the consolidated entity from this date, with its financial position and profit and loss consolidated into the consolidated entity for reporting.

Zip invested \$14.5 million in Twisto – a Czech Republic based payments and wallet platform company during the financial year ended 30 June 2021, acquiring an ownership interest of 12.37%.

The investment is reported as an investment measured at FVTPL as the Directors of the consolidated entity did not consider that the consolidated entity was able to exercise control or significant influence over Twisto at 30 June 2021.

For the financial year ended 30 June 2021, the consolidated entity reported a \$4.5 million gain on the revaluation of Zip's ownership interest in Twisto. The fair value gain on revaluation includes a gain on fair value measurement of \$4.4 million on valuing Zip's shareholding based on the last capital injection on 1 June 2021 and an unrealised foreign exchange gain of \$0.1 million in translating the investment from EUR to AUD.

On 24 May 2021, Zip announced its intention to acquire the remaining 87.63% equity stake at an enterprise value for approximately €89 million subject to certain completion adjustments. The completion of the condition precedents to the transaction completion including the issuance of Zip shares or payment of cash to satisfy the purchase is expected to occur in the quarter ending 31 December 2021.

Notes to the Financial Statements

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NOTE 14: PROPERTY, PLANT AND EQUIPMENT

	CONSOLIDATED	
	30 JUNE 2021 \$'000	30 JUNE 2020 \$'000
Carrying amounts of		
Computer equipment	1,612	1,189
Leasehold improvements	1,682	2,323
	3,294	3,512

	COMPUTER EQUIPMENT \$'000	LEASEHOLD IMPROVEMENTS \$'000	TOTAL \$'000
Cost			
Balance at 1 July 2019	1,239	3,017	4,256
Additions	1,410	1,026	2,436
Additions through acquisition	124	4	128
Disposals	(108)	(24)	(132)
Balance at 30 June 2020	2,665	4,023	6,688
Additions	1,508	116	1,624
Additions through acquisitions	19	-	19
Disposals	(75)	(13)	(88)
Balance at 30 June 2021	4,117	4,126	8,243

	COMPUTER EQUIPMENT \$'000	LEASEHOLD IMPROVEMENTS \$'000	TOTAL \$'000
Accumulated depreciation			
Balance at 1 July 2019	740	968	1,708
Additions	760	756	1,516
Additions through acquisitions	84	0	84
Disposals	(108)	(24)	(132)
Balance at 30 June 2020	1,476	1,700	3,176
Additions	1,085	757	1,842
Additions through acquisitions	19	-	19
Disposals	(75)	(13)	(88)
Balance at 30 June 2021	2,505	2,444	4,949

NOTE 15: LEASES

The consolidated entity has recognised right-of-use assets and lease liabilities in relation to property leases that have over 12 months to expiry. The average lease term of these leases is 4 years from inception. Short-term leases are not included in accordance with AASB 16 *Leases* exemptions.

The consolidated entity has not received any rent concessions for its property leases during the year ended 30 June 2021. As the COVID-19 restrictions still exist, management consider the shift to working from home and the resulting impact on office space requirements is an impairment indicator for the right-of-use assets. With the consolidated entity's continuing growth and recruitment plans, the floor space is expected to be fully utilised in the future and consequently the right-of-use assets have not been impaired at 30 June 2021. The consolidated entity does not intend to break or early terminate any of its property leases. Extension options have not been included in the assessment as exercising the options is not considered reasonably certain.

A. RIGHT-OF-USE ASSETS

The tables below show the right-of-use assets at the beginning and end of the current year:

CONSOLIDATED	\$'000
Carrying Amount	
Balance at 30 June 2020	8,160
Balance at 30 June 2021	5,849

CONSOLIDATED	\$'000
Cost	
Balance at 30 June 2020	10,637
Addition on the acquisition of QuadPay	1,619
Balance at 30 June 2021	12,256

CONSOLIDATED	\$'000
Accumulated depreciation	
Balance at 30 June 2020	2,477
Depreciation	3,930
Balance at 30 June 2021	6,407

B. LEASE LIABILITIES

The tables below show the lease liabilities at the beginning and end of the current year:

CONSOLIDATED	\$'000
Lease Liabilities	
Balance at 30 June 2020	8,414
Addition on the acquisition of QuadPay	1,619
Interest expense on lease liabilities	244
Repayment of lease liabilities	(3,981)
Balance at 30 June 2021	6,296
Analysed as:	
Current	3,618
Non-current	2,678
Balance at 30 June 2021	6,296

Notes to the Financial Statements

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Amounts recognised in profit and loss for the periods:

	CONSOLIDATED	
	30 JUNE 2021 \$'000	30 JUNE 2020 \$'000
Depreciation expense on right-of-use assets	3,930	2,477
Interest expense on lease liabilities	244	253
Expense relating to short-term leases	1,507	1,335

Expenses relating to short-term leases are reported in occupancy expenses in the Statement of Profit and Loss together with the cost of utilities and other office expenses, and are reported as a cash flow to operating activities in the Consolidated Statement of Cash Flows.

NOTE 16: INTANGIBLE ASSETS

	CONSOLIDATED	
	30 JUNE 2021 \$'000	30 JUNE 2020 \$'000
Carrying amounts		
Brand names and trademarks	80	128
Customer database	1,026	1,501
Transacting partner database	69,846	1,207
IT development and software	132,867	22,257
	203,819	25,093

CONSOLIDATED	BRAND NAMES AND TRADEMARKS \$'000	CUSTOMER DATABASE \$'000	TRANSACTIONING PARTNER DATABASE \$'000	IT DEVELOPMENT AND SOFTWARE \$'000	TOTAL \$'000
Cost					
Balance at 30 June 2020	298	2,122	1,472	37,129	41,021
Taken on acquisition	42,570	-	84,655	129,191	256,416
Additions	-	-	-	12,220	12,220
Written off ¹	(42,570)	-	-	-	(42,570)
Effect of movements in foreign exchange rates	-	-	(1,847)	(2,758)	(4,605)
Balance at 30 June 2021	298	2,122	84,280	175,782	262,482

CONSOLIDATED	BRAND NAMES AND TRADEMARKS \$'000	CUSTOMER DATABASE \$'000	TRANSACTIONING PARTNER DATABASE \$'000	IT DEVELOPMENT AND SOFTWARE \$'000	TOTAL \$'000
Accumulated amortisation					
Balance at 30 June 2020	170	621	265	14,872	15,928
Additions	48	475	14,477	28,426	43,426
Effect of movements in foreign exchange rates	-	-	(308)	(383)	(691)
Balance at 30 June 2021	218	1,096	14,434	42,915	58,663

1. The acquired QuadPay brand of \$42.6 million was written off as a result of the business re-branding to Zip during the financial year ended 30 June 2021.

The following useful lives are used in the calculation of amortisation: Internally generated intangibles:

- IT development and software 2.5 years.

Acquired intangibles:

- Brand names and trademarks 1 to 5 years;
- Customer database 4 to 5 years;
- Transacting partner database 4 to 5 years; and
- IT development and software 5 to 6 years.

The impairment assessment of intangible assets is detailed in Note 17.

NOTE 17: GOODWILL

The consolidated entity has four cash-generating units (CGUs) at 30 June 2021 as set out in the following table. Goodwill has been allocated to these CGUs. Goodwill recognised in the financial year ended 30 June 2021 arises on the acquisitions of QuadPay and Urge and reflects potential synergies and the growth potential of the acquired entities.

CONSOLIDATED	ZIP AU \$'000	ZIP NZ&UK ¹ \$'000	ZIP US ² \$'000	ZIP BUSINESS \$'000	CONSOLIDATED \$'000
Balance at 30 June 2020	4,548	46,781	-	2,112	53,441
Add: amount recognised on acquisitions	-	-	1,151,403	-	1,151,403
Less: share value not reflected in goodwill ³	-	-	(415,910)	-	(415,910)
Effect of movements in foreign exchange rates	-	57	(16,030)	-	(15,973)
Balance at 30 June 2021	4,548	46,838	719,463	2,112	772,961

1. Zip NZ and UK were acquired as part of acquisition of PartPay and are considered as one CGU for impairment assessment purposes.
2. Quad and Urge operations are considered as Zip US CGU for impairment assessment purposes. Zip US, NZ and UK are included in Zip Global in the consolidated entity's segment reporting and other reporting presentations in this report.
3. The share value not reflected in goodwill of \$415.9 million was recognised for the financial year ended 30 June 2021 for the Zip US CGU due to the net adjustment relating to the acquisition of QuadPay. Refer to Note 7 for details.

IMPAIRMENT ASSESSMENT FOR GOODWILL, INCLUDING INTANGIBLE ASSETS:

For the purpose of impairment testing, goodwill, together with intangibles, is allocated to each of the consolidated entity's CGUs.

As at 30 June 2021, for each of the consolidated entity's CGUs, the recoverable amount has been calculated based on value-in-use using cash flow projections based on financial budgets and forecasts covering a five-year period and an estimated terminal value, using a pre-tax discount rate reflecting an estimate of the weighted average cost of capital (WACC). Cash flows beyond the five-year period were extrapolated using a steady long-term annual growth rate which did not exceed the long-term average for the sectors and economies in which the CGUs operate. The steady long-term growth rate was estimated by the directors based on past performance of the cash-generating unit and the growth expectations for the markets in which they operate.

Key rates included in the impairment testing are set out in the following table:

AT JUNE 2021	ZIP AU %	ZIP NZ&UK %	ZIP US %	ZIP BUSINESS %
Pre-tax discount rate	11.1%	20.1%	20.1%	29.6%
Long-term annual growth rate	2.5%	2.5%	4.0%	2.5%

Notes to the Financial Statements

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Cash flow projections during the forecast period are based on forecast revenue growth arising from increasing total transactions volumes for the Zip AU, Zip NZ&UK and Zip US CGUs, and future originations for the Zip Business CGU. Forecast increases in gross margin and operating costs have been included to support the forecast growth in volumes. The impact of COVID-19 on the markets in which the CGUs operate has been considered in determining the forecasts.

For each of the CGUs, the carrying amount does not exceed the recoverable amount therefore no impairment of goodwill and intangible assets at 30 June 2021 has been recorded (No impairment charge was reported in the financial year ended 30 June 2020).

In addition to the detailed impairment testing performed, management compared Zip's market capitalisation to the consolidated entity's equity book value of \$1,168.4 million at 30 June 2021. Zip's market capitalisation is significantly in excess of the consolidated entity's equity book value which supports the position that no impairment is required.

Management have conducted an analysis of the sensitivity of the impairment test to changes in the key assumptions used to determine the recoverable amount for each of the group of CGUs to which goodwill is allocated. Forecast transaction volumes or originations are the key drivers in determining the cash flow projections for each CGU. In the event that transaction volumes or originations do not reach the levels forecast there is a risk that the forecast cash flows are not sufficient to support the carrying value of goodwill and an impairment charge may be reported in a future accounting period.

The percentage reduction in the forecast compound annual growth rate (CAGR) in transaction volumes or originations over the 5 year forecast period, and increase in pre-tax discount rate, that would reduce the excess of the recoverable amount over the carrying amount for each CGU to zero, but would not result in an impairment charge, is summarised in the following table:

AT JUNE 2021	ZIP AU	ZIP NZ&UK	ZIP US	ZIP BUSINESS
Percentage reduction in the forecast CAGR of transaction volumes/originations	68.5%	43.7%	25.8%	2.1%
Increase in pre-tax discount rate	54.5%	46.4%	14.8%	3.1%

Reducing the long-term annual growth rate to zero, would not result in an impairment charge for any of the CGUs.

NOTE 18: DEFERRED TAX

	CONSOLIDATED	
	30 JUNE 2021 \$'000	30 JUNE 2020 \$'000
Deferred tax assets comprise temporary differences attributable to:		
Timing differences		
– Provision for expected credit losses	33,451	15,557
– Fair value losses on convertible notes and warrants	24,615	–
– Other provision and payables	20,002	906
Tax Losses	37,536	10,009
Total	115,604	26,472
Representing:		
Deferred tax assets not brought to account	74,744	11,592
Deferred tax assets recognised from timing difference	40,860	14,880
Total	115,604	26,472
Reported as:		
Deferred tax assets recognised from timing difference	40,860	14,880
Set off deferred tax liabilities pursuant to set-off provisions	(30,548)	(14,880)
Net deferred tax assets	10,312	–

	CONSOLIDATED	
	30 JUNE 2021 \$'000	30 JUNE 2020 \$'000
Deferred tax liabilities comprise temporary differences attributable to:		
Timing differences		
- Fair value gain on investment	-	14,252
- Acquired intangibles and other	40,860	628
Total	40,860	14,880
Set off deferred tax assets pursuant to set-off provisions	(30,548)	(14,880)
Net deferred tax liabilities	10,312	-

The deferred tax assets arising from tax losses will be recognised in the accounts once the consolidated entity can demonstrate that it is probable the tax benefits will be utilised within the foreseeable future. Management have taken a conservative position in that the deferred tax assets have been recognised on timing differences to the extent that deferred tax liabilities were recorded at 30 June 2021.

Zip Co Limited and its wholly-owned Australian subsidiaries have applied the tax consolidation legislation which means that these entities are taxed as a single entity. The consolidated entity has offset recognised deferred tax assets and deferred tax liabilities in the Consolidated Statement of Financial Position at 30 June 2021, to the extent they are levied by the same taxing authority on the same entity or different entities that intend to realise the assets and settle the liabilities at the same time. The deferred tax assets and deferred tax liabilities of these entities have been offset in the consolidated financial statements.

Tax losses in FY21 include adjustments in respect of losses brought forward from FY20 amounting to \$(2.3) million as a reduction (FY20: \$0.6 million as an addition), tax losses brought on QuadPay acquisition amounting to \$3.3 million as an addition. Timing difference in FY21 include adjustments in respect of timing difference brought forward from FY20 amounting to \$(2.3) million as reduction (FY20: \$1.5 million as an addition), and timing difference brought on QuadPay acquisition amounting to \$(59.8) million as a reduction.

NOTE 19: TRADE AND OTHER PAYABLES

	CONSOLIDATED	
	30 JUNE 2021 \$'000	30 JUNE 2020 \$'000
Trade payables	36,663	9,744
Amounts due to merchants and other partners	32,445	7,554
Other	3,988	2,235
Total	73,096	19,533

Refer to Note 24 for further information on financial risk management.

Notes to the Financial Statements

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NOTE 20: DEFERRED CONSIDERATION

DETAILS	DATE	\$'000
Balance	30 June 2020	13,979
Issue of shares		(6,989)
Balance	30 June 2021	6,990

Under the terms of the acquisition of PartPay Limited, Zip agreed to issue up to a maximum of NZ\$15 million of deferred consideration in Zip shares or cash to the PartPay shareholders, subject to the achievement of minimum transaction volumes on the PartPay platform during the financial years 2020 and 2021.

The number of Zip's shares to be issued is calculated on the higher of \$2.76 per Zip's share and a 5% discount to the volume weighted average price of Zip's shares on the ASX in the 10 trading days prior to the date of issue.

PartPay satisfied the performance milestones in the financial year 2020 and accordingly 1,091,742 shares were issued to the PartPay shareholders on 14 October 2020, valued at \$7.0 million. Consequently the balance of the contingent consideration has reduced to \$7.0 million as at 30 June 2021.

PartPay satisfied the remaining performance milestones in the financial year 2021 and accordingly the contingent consideration equal to \$7.0 million will be issued in shares to PartPay shareholders. The number of Zip's shares to be issued will be calculated based on a 5% discount to the volume weighted average price of Zip's shares on the ASX in the 10 trading days prior to the date of issue. At the time of issuing this report, the shares remained unissued.

NOTE 21: BORROWINGS

BORROWINGS AND SECURITISATION WAREHOUSE

The consolidated entity sells customer receivables to securitisation warehouses and special purpose vehicles through its asset-backed securitisation program. The securitisation warehouses and special purpose vehicles are consolidated as the consolidated entity is exposed to, or has rights to, variable equity returns, and has the ability to affect its returns through its power over the securitisation warehouses and special purpose vehicles. The consolidated entity may serve as a sponsor, servicer, manager, liquidity provider, purchaser of notes and/or purchaser of residual interest units.

	CONSOLIDATED	
	30 JUNE 2021 \$'000	30 JUNE 2020 \$'000
Secured loans	1,663,137	1,082,087
Add: accrued interest	3,589	2,370
Less: unamortised costs	(7,493)	(2,503)
	1,659,233	1,081,954

ASSETS PLEDGED AS SECURITY

The table below presents the assets and underlying borrowings as a result of the securitisation warehouses and special purpose vehicles:

	CONSOLIDATED	
	30 JUNE 2021 \$'000	30 JUNE 2020 \$'000
Customer receivables ¹	1,962,550	1,111,711
Cash held by securitisation warehouse	40,989	8,393
	2,003,539	1,120,104
Borrowings related to receivables ²	2,007,889	1,162,486

1. The amount recognised above represents the carrying value of the customer receivables held by securitisation warehouses and special purpose vehicles and is net of provision for expected credit losses and unearned future income. This excludes customer receivables totalling \$25.5 million held by entities that are not securitisation vehicles at 30 June 2021 and \$4.9 million at 30 June 2020.
2. Including \$344.8 million junior and seller notes held by Zip's corporate entities (\$80.4 million at 30 June 2020).

TERM OF FACILITIES FINANCING ARRANGEMENTS

CONSUMER RECEIVABLES

	FACILITY LIMIT \$'000	DRAWN AT 30 JUNE 2021 \$'000	MATURITY
Zip Master Trust			
- Rated Note Series			
- 2019-1	475,000	475,000	September 2021
- 2020-1	285,000	285,000	October 2022
- 2021-1	475,000	475,000	April 2024
- Variable Funding Note	513,700	145,350	January 2022
zipMoney 2017-1 Trust	312,700	48,000	May 2023
zipMoney 2017-2 Trust	70,000	47,000	December 2022
AR2LLC ¹	399,042	148,803	May 2024
Total	2,530,442	1,624,153	

Notes to the Financial Statements

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SME RECEIVABLES

	FACILITY LIMIT \$'000	DRAWN AT 30 JUNE 2021 \$'000	MATURITY
Securitisation Warehouses			
Funding Box 3 Australia	35,000	25,994	January 2022
Funding Box NZ ²	11,168	7,490	February 2022
Zip Biz 2020-1 Trust	100,000	5,500	November 2023
Total	146,168	38,984	

1. Facility limit USD \$300.0 million translated to AUD at exchange rate of 0.7518.
2. Facility limit NZD \$12.0 million translated to AUD at exchange rate of 1.0745.

Interest payable under all funding arrangements are based on an agreed margin plus BBSW/LIBOR with the exception of Funding Box 3 and Funding Box NZ which are subject to fixed rates.

RECONCILIATION OF BORROWING

AT JUNE 2021	30 JUNE 2020 \$'000	CASH MOVEMENT ¹ \$'000	NON-CASH MOVEMENT \$'000	30 JUNE 2021 \$'000
Gross borrowings	1,082,087	581,050	-	1,663,137
Accrued interest	2,370	(57,432)	58,651	3,589
Unamortised costs	(2,503)	(2,084)	(2,906)	(7,493)
Total	1,081,954	521,534	55,745	1,659,233

AT JUNE 2020	30 JUNE 2019 \$'000	CASH MOVEMENT ² \$'000	NON-CASH MOVEMENT ² \$'000	30 JUNE 2020 \$'000
Gross borrowings	587,500	494,587	-	1,082,087
Accrued interest	1,431	(38,178)	39,117	2,370
Unamortised costs	(1,486)	(2,932)	1,915	(2,503)
Total	587,445	453,477	41,032	1,081,954

1. The cash movements shown in gross borrowings in the financial year ended 30 June 2021 includes a taken-on amount of \$50.4 million as a result of the acquisition of QuadPay. Note that interest payment of \$0.2 million for leasing liabilities is excluded from the cash movement in the reconciliation.
2. The cash movements shown in gross borrowings in the financial year ended 30 June 2020 includes a taken-on amount of \$21.5 million as a result of the acquisitions of Spotcap and PartPay. Note that interest payment of \$0.2 million for leasing liabilities is excluded from the cash movement in the reconciliation. The non-cash movement of accrued interest and unamortised costs in the financial year ended 30 June 2020 includes the recognition of accrued interest of \$0.2 million and unamortised costs of \$(0.06) million as a result of the acquisitions of Spotcap and PartPay.

NOTE 22: ISSUED CAPITAL

ORDINARY SHARES

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the consolidated entity in proportion to the number of, and amounts paid, on the shares held. The fully paid ordinary shares have no par value and the consolidated entity does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

	30 JUNE 2021 SHARES '000	30 JUNE 2021 \$'000	30 JUNE 2020 SHARES '000	30 JUNE 2020 \$'000
Ordinary shares – fully paid	562,136	1,688,785	390,390	274,151
	562,136	1,688,785	390,390	274,151

MOVEMENTS IN ORDINARY SHARE CAPITAL

DETAILS	DATE	SHARES '000	\$'000
Balance	30 June 2019	352,138	141,211
Issue of shares – employee incentives		1,229	4,213
Issue of shares – exercise of options		300	180
Issue of shares – acquisitions		200,001	68,805
Issue of shares – capital raising		16,722	6,1871
Cost of issuing shares		-	(2,129)
Balance	30 June 2020	390,390	274,151
Issue of shares – employee incentives		11,637	141,758
Issue of shares – capital raising		33,191	176,710
Issue of shares – exercise of options		6,618	1,342
Issue of shares – acquisitions		119,208	1,090,741
Issue of shares – PartPay contingent consideration		1,092	6,989
Cost of issuing shares		-	(2,906)
Balance	30 June 2021	562,136	1,688,785

MOVEMENTS IN OPTIONS

DETAILS	DATE	OPTIONS '000
Balance	30 June 2019	10,100
Options exercised		(300)
Balance	30 June 2020	9,800
Issue of options on the acquisition of QuadPay		10,480
Options exercised		(6,618)
Options expired not exercised		(3,920)
Balance	30 June 2021	9,742

Notes to the Financial Statements

Continued

SHARES UNDER OPTIONS

OPTIONS — WESTPAC BANKING CORPORATION:

At 30 June 2021, the Company had 5,880,000 outstanding options which were granted to Westpac Banking Corporation to acquire ordinary shares at \$0.81 that vest based on the achievement of certain revenue hurdles as set out below:

REVENUE HURDLE	RELEVANT AMOUNT THRESHOLD	PERFORMANCE OPTIONS TO VEST
Hurdle 3	\$50,000,000	1,960,000
Hurdle 4	\$62,500,000	1,960,000
Hurdle 5	\$75,000,000	1,960,000
Total at 30 June 2021		5,880,000

In the event a hurdle is achieved, the associated options vest, and lapse 12 months after vesting. Options relating to any hurdle not achieved by 10 August 2022 automatically lapse.

The remaining 5,880,000 options are held by Westpac Banking Corporation and vest based on the achievement of certain revenue hurdles. In the event a hurdle is achieved, the associated options vest, and lapse 12 months after vesting. Options relating to any hurdle not achieved by 10 August 2022 automatically lapse. Additionally, if the first revenue hurdle is not achieved by 10 August 2020, then 3,920,000 options will lapse. The first revenue hurdle was not met on 10 August 2020 and accordingly 3,920,000 options lapsed. As at 30 June 2021, none of the revenue hurdles have been met and no options have vested.

No person entitled to exercise the options had or has any right by virtue of the option to participate in any share issue of the Company or of any other body corporate.

OPTIONS — REPLACEMENT AWARDS TO QUADPAY:

The options issued during the financial year ended 30 June 2021 were the replacement awards issued to employees and other option holders of QuadPay on the acquisition by Zip. Details of the issue are set out in the following table:

GRANT DATE	EXERCISE PRICE	NUMBER ISSUED
31 August 2020	\$0.06	892,574
31 August 2020	\$0.13	230,809
31 August 2020	\$0.17	7,953,219
31 August 2020	\$0.49	1,403,767
Total granted during financial year 2021		10,480,369
Exercise of options	\$0.17 ¹	6,617,823
Total at 30 June 2021		3,862,546

1. Weighted average of exercise price.

Each option expires on the earlier of:

- the expiry dates of the options which varies between 28 May 2028 and 28 May 2030; and
- the date on which the option otherwise lapses in accordance with the terms of the Award Agreement between the Company and the relevant QuadPay option holder and the terms of the QuadPay Option Plan.

The options can be exercised by the holder at any time before the options expire. No person entitled to exercise the options had or has any right by virtue of the option to participate in any share issue of the Company or of any other body corporate.

There are 3,862,546 options issued to employees and non-employees on the acquisition of QuadPay that remained un-exercised at 30 June 2021.

MOVEMENTS IN PERFORMANCE RIGHTS

DETAILS	DATE	RIGHTS '000
Balance	30 June 2019	2,750
Issued during the year		359
Balance	30 June 2020	3,109
Issued during the year		4,065
Lapsed during the year		(391)
Vested during the year		(6)
Balance	30 June 2021	6,777

SHARES UNDER PERFORMANCE RIGHTS

SHARES UNDER AT RISK LONG TERM INCENTIVES:

At Risk Long Term Incentives were issued for no consideration under the Employee Incentive Plan, and have a nil exercise price and vest based on the achievement of Total Shareholder Return hurdles and time based hurdles as set out previously in the Remuneration Report.

ISSUE DATE	VESTING DATE	EXPIRY DATE	NUMBER OF RIGHTS ISSUED	FAIR VALUE AT GRANT DATE \$
15 February 2019	15 September 2021	15 February 2025	393,333	0.287
15 February 2019	15 February 2022	15 February 2025	406,666	0.287
15 February 2019	15 September 2022	15 February 2025	393,333	0.317
15 February 2019	15 February 2023	15 February 2025	406,666	0.317
15 February 2019	15 September 2023	15 February 2025	393,334	0.330
15 February 2019	15 February 2024	15 February 2025	406,668	0.330
15 December 2019	15 September 2022	15 December 2025	20,548	1.900
15 December 2019	15 September 2022	15 December 2025	20,117	1.980
15 December 2019	15 September 2022	15 December 2025	106,165	0.630
15 December 2019	15 September 2023	15 December 2025	106,165	0.760
15 December 2019	15 September 2024	15 December 2025	106,164	0.810
2 July 2020	15 September 2023	24 June 2026	388,164	1.56
2 July 2020	15 September 2024	24 June 2026	388,162	1.63
2 July 2020	15 September 2025	24 June 2026	388,160	1.65
26 October 2020	14 September 2023	22 October 2026	102,487	4.68
7 June 2021	7 June 2022	7 June 2027	110,000	6.88
7 June 2021	7 June 2023	7 June 2027	110,000	6.88
7 June 2021	7 June 2024	7 June 2027	110,000	6.88
9 June 2021	9 June 2022	9 June 2027	91,743	6.88
9 June 2021	9 June 2023	9 June 2027	91,743	6.88
9 June 2021	9 June 2024	9 June 2027	91,743	6.88
Total at 30 June 2021			4,631,361	

Notes to the Financial Statements

Continued

ISSUED IN THE YEAR ENDED 30 JUNE 2021:

ISSUE DATE	VESTING DATE	EXPIRY DATE	NUMBER OF RIGHTS ISSUED	FAIR VALUE AT GRANT DATE \$
2 July 2020	15 September 2023	24 June 2026	388,164	1.56
2 July 2020	15 September 2024	24 June 2026	388,162	1.63
2 July 2020	15 September 2025	24 June 2026	388,160	1.65
26 October 2020	14 September 2023	22 October 2026	102,487	4.68
7 June 2021	7 June 2022	7 June 2027	110,000	6.88
7 June 2021	7 June 2023	7 June 2027	110,000	6.88
7 June 2021	7 June 2024	7 June 2027	110,000	6.88
9 June 2021	9 June 2022	9 June 2027	91,743	6.88
9 June 2021	9 June 2023	9 June 2027	91,743	6.88
9 June 2021	9 June 2024	9 June 2027	91,743	6.88
Total issued in the financial year			1,872,202	

LAPSED IN THE YEAR ENDED 30 JUNE 2021:

ISSUE DATE	VESTING DATE	EXPIRY DATE	NUMBER ISSUED
15 February 2019	15 September 2021	15 February 2025	(116,667)
15 February 2019	15 September 2022	15 February 2025	(116,667)
15 February 2019	15 September 2023	15 February 2025	(116,666)
Total lapsed in the financial year			(350,000)

SHARES UNDER LONG TERM EQUITY:

LTEs issued provide Zip with the best opportunity to retain senior leaders and attract high quality talent. LTEs were issued with equal vesting over 4 years (25% per year). LTE is not subject to any performance hurdles and only requires the Executive to remain employed for the rights to vest.

Details of LTEs outstanding during the year are as follows:

	WEIGHTED AVERAGE FAIR VALUE (\$)	NUMBER OF LTE ISSUED
Balance at the 30 June 2020		-
Issued during the year	7.82	2,193,067
Forfeited during the year	8.43	(41,609)
Vested during the year	7.28	(5,800)
Total at 30 June 2021		2,145,658

MOVEMENTS IN WARRANTS

DETAILS	DATE	WARRANTS '000
Balance	30 June 2019	-
Issue of warrants		14,615
Balance	30 June 2020	14,615
Issue of warrants		19,365
Balance	30 June 2021	33,980

The following table shows details of warrants issued during the financial year ended 30 June 2021 and outstanding at 30 June 2021.

ISSUE DATE	EXPIRY DATE	EXERCISE PRICE	NUMBER ISSUED
6 November 2019	6 November 2026	\$4.70	14,615,000
1 September 2020 ¹	1 September 2023	\$5.16	19,365,208
Total at 30 June 2021			33,980,208

1. Refer to Note 6 for details of the warrants issued to CVI.

On 7 November 2019, Zip entered a strategic agreement with Amazon Commercial Services Pty Limited (Amazon Australia) whereby Zip was offered as a payment choice on Amazon Australia. Zip issued Amazon Australia warrants to acquire 14,615,000 ordinary shares in Zip at an exercise price of \$4.70 exercisable based on achievement of certain performance hurdles (Amazon Warrants).

The Amazon Warrants were independently valued by an external valuer using a custom-built Monte Carlo model which simulates share price paths over the duration of the warrants' life. As a result, each Amazon Warrant has been valued at \$1.65 which approximates the value of the service received. Of the warrants issued, 3,653,750 warrants (25% of the total) vested concurrently with Zip's entry into the strategic agreement, and the remainder of the warrants vest based on performance milestones relating to transaction volumes being achieved over the 7 years from issue date. On vesting, the warrants may be exercised any time up to 7 years from the issue date. Unvested Amazon Warrants are subject to early expiration in certain circumstances, including in the event that the applicable vesting milestones are not met by specified dates. An expense of \$1.8 million has been recognised for the year ended 30 June 2021 based on management's assessment of the likelihood of the performance milestones being met over the 7 years from issue date. Further assessments will be made at each future reporting date and adjustments made to the amounts recognised based on this assessment.

There were no Amazon Warrants exercised or expired during the year ended 30 June 2021, and no milestones were met in the period up to 30 June 2021.

MOVEMENTS IN CONVERTIBLE NOTES

DETAILS	DATE	CONVERTIBLE NOTES
Balance	30 June 2020	-
Issue of convertible notes on 1 September 2020 ¹		1,000
Issue of convertible notes on 23 April 2021 ^{1,2}		2,000
Balance	30 June 2021	3,000

1. Refer to Note 6 for details of the convertible notes issued.

2. The issuance of 2,000 convertible notes on 23 April is listed on Singapore Exchange (SGX).

Notes to the Financial Statements

Continued

ADDITIONAL INFORMATION RELATING TO UNISSUED SECURITIES

PERFORMANCE SHARES THAT MAY BE ISSUED TO URGE VENDORS

Under the terms of the acquisition of Urge Holdings Pty Ltd, Zip agreed to issue up to a maximum of \$5.5 million of shares to the vendors as the 'milestone consideration' based on the achievement of certain prescribed performance milestones. The measurement period for determining whether the milestones have been satisfied commenced in April 2021.

The milestone consideration may also become payable early as a result of specific acceleration events.

The full terms of the milestone consideration, including the requirement for the vendors to remain employed, and details of the Urge acquisition were included in Zip's ASX announcement on 26 October 2020.

In summary, depending on the relevant milestone that is achieved, shares will be issued at either an issue price of \$6.8439 per share, or an issue price equal to the higher of \$6.00 per share, and the volume weighted average price of Zip's shares in the 30 trading days prior to their applicable issue date.

The maximum number of shares that may be issued on the achievement of the milestones is 916,660 (which was determined based on an agreed minimum price of \$6.00 per share). If, when any shares are issued as the milestone consideration, Zip's share price is less than \$6.00, Zip will be required to pay a 'true up' amount in cash to the vendors for the difference. The milestones must generally be satisfied by no later than 3.5 years after the acquisition date of 26 October 2020, as otherwise, the right to receive the milestone consideration will lapse. No milestones were satisfied during the reporting period, and no shares were issued as milestone consideration during the reporting period.

TENURE CONSIDERATION SHARES AND PERFORMANCE CONSIDERATION SHARES THAT MAY BE ISSUED TO QUADPAY FOUNDERS

Under the terms of the acquisition of QuadPay Inc., Zip agreed to issue the QuadPay Founders a maximum of 5,000,000 Shares (split equally) (Tenure Consideration Shares). The Tenure Consideration Shares will be issued in equal instalments in the two-year period after completion of the transaction, which occurred on 31 August 2020, subject to the QuadPay Founders continuing to remain employed with QuadPay. In addition, Zip agreed to issue up to a maximum amount of US\$60 million at Zip's discretion either in cash or by the issue of up to a maximum of 24,570,024 shares (Performance Consideration Shares), split equally between each QuadPay Founder subject to the achievement of certain prescribed minimum Total Transaction Volume (TTV) performance targets on the QuadPay platform during the period from 1 January 2020 to 30 June 2022, and remaining employed during this period.

The first performance target was met by the QuadPay Founders, with the TTV on the QuadPay platform for the rolling three months to 31 December 2020 exceeding the TTV performance targets.

Accordingly, Zip issued 5,398,824 shares on 24 May 2021 to the QuadPay Founders as part of the Performance Consideration Shares. The number of Zip's shares issued was calculated based on the volume weighted average price of Zip's shares on the ASX in the 15 trading days prior to the date of issuance.

A share-based payment expense of \$102.7 million has been recognised in the period in relation to the Tenure and Performance Consideration Shares issued to QuadPay Founders (refer to Note 4).

SHARE BUY-BACK

There is no current on-market share buy-back.

NOTE 23: DIVIDENDS

There were no dividends paid, recommended, or declared during the current or previous financial year.

NOTE 24: FINANCIAL RISK MANAGEMENT

FINANCIAL RISK MANAGEMENT OBJECTIVES

The consolidated entity's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The consolidated entity's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the consolidated entity. These methods include sensitivity analysis in the case of interest rate and other price risks, and ageing analysis for credit risk.

MARKET RISK

FOREIGN CURRENCY RISK

Foreign currency risk arises on financial instruments that are denominated in a foreign currency, that is in a currency other than the functional currency in which they are measured. Foreign currency risk does not arise from financial instruments that are non-monetary items or from financial instruments denominated in the functional currency.

The consolidated entity was mainly exposed to the United State Dollar (USD), the New Zealand Dollar (NZD) and the Great British Pound (GBP) in the financial year ended 30 June 2021, and was mainly exposed to the New Zealand Dollar (NZD) and the Great British Pound (GBP) in the financial year ended 30 June 2020. The consolidated entity undertakes transactions denominated in its subsidiaries' functional currencies; consequently, limited exposures to exchange rate fluctuations arise.

The consolidated entity did not hedge any foreign currency risks during the financial year ended 30 June 2021 or 30 June 2020.

Translation exposures arise from financial and non-financial items held by an entity with a functional currency different from the consolidated entity's presentation currency. The consolidated entity's exposure to translation-related risk arises from its investments in subsidiaries in the United States, New Zealand and the United Kingdom businesses. The foreign exchange gain or loss on translating the consolidated entity's investment in foreign subsidiaries to Australian dollars at the end of the financial year is recognised in Other Comprehensive Income and accumulated in the foreign currency translation reserve.

PRICE RISK

The consolidated entity is exposed to the equity price risk arising from its embedded derivative in Susquehanna Convertible Notes and Warrants issued to CVI, which have been recorded as financial liabilities at 30 June 2021.

As detailed in Note 6, Zip has reported a financial liability at 30 June 2021 in relation to the underlying debt component of the convertible notes of \$65.3 million, and the embedded derivative and warrants issued have been valued at fair values of \$60.6 million and \$60.3 million respectively using the Black Scholes option valuation model. The fair values have been based on a closing Zip's share price at 30 June 2021 of \$7.57, volatility of 45%, and a risk free rate of 0.7% for the embedded derivative, and 0.1% for the warrants. The different risk free rates reflect the different expiry dates of the instruments. A fair value loss of \$82.0 million has been recorded, being the movement in the fair values of the embedded derivative and warrants between 1 September 2020 and 30 June 2021.

The valuation of the above mentioned financial liabilities has Zip's share price as the key input. The fair values of these financial liabilities dependent on the share price of Zip which is listed on the Australian Securities Exchange (ASX).

The sensitivity analyses below have been determined based on the exposure to Zip's share price at 30 June 2021.

If Zip's share price had been 1% higher/lower:

- Loss after tax for the year ended 30 June 2021 would increase/decrease by \$1.7 million as a result of the changes in fair values of these financial liabilities; and
- Equity would decrease/increase by \$1.7 million as a result of the changes in fair values of these financial liabilities.

Notes to the Financial Statements

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The consolidated entity is not exposed to other significant price risk at 30 June 2021.

The consolidated entity was exposed to the equity share price risk arising from its investment in QuadPay at 30 June 2020. The investment in QuadPay was held for strategic investment rather than trading purposes as at 30 June 2020. The fair value of the investment at 30 June 2020 was based on the value attributable to Zip's shareholding in QuadPay Inc., on the basis of the merger ratio agreed for Zip's proposed acquisition of the 85.91% shareholding in QuadPay it did not already own, using Zip's share price at 30 June 2020, and adjusting for the probability of deal success and a discount for control. The fair value of the investment was dependent on share price of Zip which is listed on the Australian Securities Exchange (ASX). On 31 August 2021, Zip acquired the remaining interest in QuadPay and the investment in QuadPay was derecognised on this basis in the financial year ended 30 June 2021.

The sensitivity analysis below was determined based on the exposure to Zip's share price at 30 June 2020.

If Zip's share price had been 1% higher/lower:

- Loss after tax for the year ended 30 June 2020 would decrease/increase by \$0.8 million as a result of the changes in fair value of the investment; and
- Equity would increase/decrease by \$0.8 million as a result of the changes in fair value of the investments in equity instruments.

The consolidated entity was not exposed to other significant price risk at 30 June 2020.

INTEREST RATE RISK

The consolidated entity's main interest rate risk arises from its cash and cash equivalents, term deposits and borrowings. Secured borrowings to fund the customer receivables are a mix of fixed rate borrowings and floating rate borrowings where the rates are set as a fixed margin plus 1-month BBSW/LIBOR.

The consolidated entity also earns interest from its customer receivables on fixed rates. In the event of a movement in interest rates the consolidated entity would review its pricing framework in accordance with its risk management policy.

At the end of the reporting periods, the consolidated entity had the following variable rate borrowing outstanding:

	WEIGHTED AVERAGE INTEREST RATE	30 JUNE 2021 \$'000	WEIGHTED AVERAGE INTEREST RATE	30 JUNE 2020 \$'000
Floating rate secured borrowing	3.56%	(1,629,654)	3.48%	(1,049,997)

At the end of reporting periods, the consolidated entity had the following financial assets and liabilities exposed to variable interest rate risk:

	30 JUNE 2021 \$'000	30 JUNE 2020 \$'000
Cash and cash equivalents	330,201	32,712
Term deposit	1,507	1,507
Floating rate secured borrowing	(1,629,654)	(1,049,997)

In the event of a +/- 1% movement in the BBSW/LIBOR, based on reasonable possible judgement, and with all other variables held constant, the consolidated entity's:

- Loss after tax for the year ended 30 June 2021 would increase/decrease by \$9.1 million (2020: increase/decrease by \$7.1 million). This is mainly attributable to the consolidated entity's exposure to interest rates on its floating rate borrowings; and
- Equity at 30 June 2021 would decrease/increase by \$9.1 million (2020: decrease/increase by \$7.1 million).

CREDIT RISK

- Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The consolidated entity has a strict code of credit, including obtaining agency credit information, confirming application details and setting appropriate credit limits prior to customers joining the Zip platform.
- The consolidated entity regularly reviews customer collections, and collections past due. If there are uncollectable customer receivables, the consolidated entity will write off these receivables but will continue to work on their recovery.
- The consolidated entity regularly reviews the level of provision for expected credit loss to ensure that the level of provision is sufficient to mitigate the credit risk exposure in terms of financial reporting. The provision raised represents management's expectation for credit losses in the receivables portfolio at the reporting date measured in accordance with AASB 9.
- The collective provision is estimated on the basis of historical loss experience for assets with similar credit characteristics by the consolidated entity and other companies with similar portfolios. The maximum exposure to credit risk at the reporting date for recognised financial assets is the carrying amount, net of any provisions for expected credit losses of those assets, as disclosed in the consolidated statement of financial position and notes to the consolidated financial statements. Refer to Note 12 for detailed assessment of expected credit losses.
- The consolidated entity does not hold any collateral or other credit enhancements.

LIQUIDITY RISK

Liquidity risk management requires the consolidated entity to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable. The consolidated entity manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities, by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

Each of the securitisation warehouses in place has loan covenants that are in line with standard market practice given the nature of the warehouse facilities. There were no material breaches of any of the covenants in place during the financial period.

FINANCING ARRANGEMENTS

Unused borrowing facilities at the reporting date are disclosed in Note 21.

REMAINING CONTRACTUAL MATURITIES

The financial assets of the consolidated entity predominantly comprise customer receivables that have:

- An average repayment profile of six months for Zip Pay receivables, ten months for Zip Money and twelve months for SME receivables;
- Instalment payments generally due within 14-42 days for instalments product within the Zip Global CGU.

The following tables detail the consolidated entity's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the Consolidated Statement of Financial Position.

Notes to the Financial Statements

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CONSOLIDATED 30 JUNE 2021	WEIGHTED AVERAGE INTEREST RATE %	1 YEAR OR LESS \$'000	BETWEEN 1 AND 2 YEARS \$'000	BETWEEN 2 AND 5 YEARS \$'000	OVER 5 YEARS \$'000	REMAINING CONTRACTUAL MATURITIES \$'000
Non-interest-bearing						
Trade and other payables		73,096	-	-	-	73,096
Deferred contingent consideration		6,990	-	-	-	6,990
Lease liabilities		3,746	2,619	-	-	6,365
Interest-bearing						
- floating rate						
Borrowings	3.56%	623,678	380,000	629,304	-	1,632,982
- fixed rate						
Borrowings	8.85%	260	33,484	-	-	33,744
Total non-derivatives		707,770	416,103	629,304	-	1,753,177

CONSOLIDATED 30 JUNE 2020	WEIGHTED AVERAGE INTEREST RATE %	1 YEAR OR LESS \$'000	BETWEEN 1 AND 2 YEARS \$'000	BETWEEN 2 AND 5 YEARS \$'000	OVER 5 YEARS \$'000	REMAINING CONTRACTUAL MATURITIES \$'000
Non-interest-bearing						
Trade and other payables		19,533	-	-	-	19,533
Deferred contingent consideration		13,979	-	-	-	13,979
Lease liabilities		3,008	3,157	2,619	-	8,784
Interest-bearing						
- floating rate						
Borrowings	3.48%	507,574	544,500	-	-	1,052,074
- fixed rate						
Borrowings	10.00%	293	32,090	-	-	32,383
Total non-derivatives		544,387	579,747	2,619	-	1,126,753

The cash flows in the maturity analysis above are not expected to occur significantly earlier than disclosed above.

FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the consolidated entity. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

FAIR VALUE HIERARCHY

AASB 13 *Fair Value Measurement* requires disclosure of fair value measurements by level in the fair value measurement hierarchy as follows:

- **Level 1** – the instrument has quoted prices (unadjusted) in active markets for identical assets or liabilities.
- **Level 2** – a valuation technique is used using inputs other than quoted prices within level 1 that are observable for the financial instrument, either directly (i.e. as prices), or indirectly (i.e. derived from prices).
- **Level 3** – a valuation technique is used using inputs that are not observable based on observable market data (unobservable inputs).

The Directors consider that the carrying amount of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values.

	FAIR VALUE HIERARCHY AT 30 JUNE 2021			
	LEVEL 1 \$'000	LEVEL 2 \$'000	LEVEL 3 ¹ \$'000	TOTAL \$'000
Financial assets				
Cash and cash equivalents	330,201	-	-	330,201
Other receivables	-	18,836	-	18,836
Term deposit	-	1,507	-	1,507
Customer receivables	-	1,988,036	-	1,988,036
Investment	-	19,034	-	19,034
Total	330,201	2,027,413	-	2,357,614
Financial liabilities				
Trade and other payables	-	73,096	-	73,096
Deferred contingent consideration	-	6,990	-	6,990
Borrowings	1,659,233	-	-	1,659,233
Financial liabilities – convertible notes				
Net debt host	-	349,008	-	349,008
Financial liabilities – convertible notes embedded derivative	-	-	60,643	60,643
Financial liabilities – warrants	-	-	60,314	60,314
Total	1,659,233	429,094	120,957	2,209,284

1. Refer to price risk analysis in this note for the valuation method of financial liabilities – convertible notes embedded derivative and financial liability – warrants which are classified as level 3.

Notes to the Financial Statements

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	FAIR VALUE HIERARCHY AT 30 JUNE 2020			
	LEVEL 1 \$'000	LEVEL 2 \$'000	LEVEL 3 \$'000	TOTAL \$'000
Financial assets				
Cash and cash equivalents	32,712	-	-	32,712
Other receivables	-	4,571	-	4,571
Term deposit	-	1,507	-	1,507
Customer receivables	-	1,116,618	-	1,116,618
Investment ¹	-	-	82,930	82,930
Total	32,712	1,122,696	82,930	1,238,338
Financial liabilities				
Trade and other payables	-	19,533	-	19,533
Deferred contingent consideration	-	13,979	-	13,979
Borrowings	1,081,954	-	-	1,081,954
Total	1,081,954	33,512	-	1,115,466

1. Refer to price risk analysis in this note for the valuation method of investment in QuadPay at 30 June 2020 which is classified as level 3.

NOTE 25: CONTINGENCIES

On 24 June 2019, Zip announced to the ASX that Firstmac Limited had commenced proceedings in the Federal Court against Zip Co Limited and zipMoney Payments Pty Ltd alleging infringement of Firstmac's "ZIP" trademark, which is registered in respect of financial affairs (loans). Zip continues to vigorously defend the proceedings and has brought a cross-claim seeking cancellation of Firstmac's "ZIP" trademark. However, as the proceedings are ongoing in financial year 2021 and to the date of this report, there remains the possibility of a liability being incurred contingent on the outcome of the proceedings.

There were no other contingent liabilities or contingent assets as at 30 June 2021 and as at 30 June 2020.

NOTE 26: KEY MANAGEMENT PERSONNEL DISCLOSURES

DIRECTORS

The following persons were Directors of Zip Co Limited (Zip or the Company) during the financial year ended 30 June 2021:

- Diane Smith-Gander AO
- Philip Crutchfield
- Larry Diamond
- Peter Gray
- John Batistich
- Pippa Downes
- Dianne Challenor

COMPENSATION

The aggregate compensation paid to Directors and other members of key management personnel of the consolidated entity is set out below:

	30 JUNE 2021 \$'000	30 JUNE 2020 \$'000
Short-term employee benefits	1,875	1,425
Post-employment benefits	112	134
Long-term benefits	37	50
Share-based payments	1,081	990
	3,105	2,599

NOTE 27: RELATED PARTY TRANSACTIONS

PARENT ENTITY

Zip Co Limited is the parent entity.

SUBSIDIARIES

Interests in subsidiaries are set out in Note 30.

KEY MANAGEMENT PERSONNEL

Disclosures relating to key management personnel are set out in Note 26 and the remuneration report included in the Directors' report.

TRANSACTIONS WITH RELATED PARTIES

Other than reported in Note 26, there were no transactions with related parties during the current and previous financial year.

RECEIVABLE FROM AND PAYABLE TO RELATED PARTIES

There were no trade receivables due from, or trade payables due to, related parties at the current and previous reporting date.

LOANS TO/FROM RELATED PARTIES

During the financial year, the consolidated entity provided several shareholder loans to its associate Payflex for working capital and loan funding purposes. The loans amount outstanding at 30 June 2021 was \$1.6m which bear nil interest. The loans are recorded as fair value through profit or loss as the loans may be converted into shares of Payflex if the consolidated entity does not complete the full acquisition of Payflex by 31 December 2021.

There were no other loans to/from related parties at the 30 June 2021 and there were no loans to/from related parties at 30 June 2020.

Notes to the Financial Statements

Continued

NOTE 28: REMUNERATION OF AUDITORS

During the financial year the following fees were paid or payable for services provided by Deloitte Touche Tohmatsu, the auditor of the consolidated entity:

	30 JUNE 2021 \$'000	30 JUNE 2020 \$'000
Deloitte		
Audit and review of the financial statements	699	442
Consulting services	127	252
Total	826	694
Other Auditor		
Audit and review of the financial statements	128	-
Consulting services	26	-
Total	154	-

NOTE 29: PARENT ENTITY INFORMATION

The accounting policies of the parent entity, which have been applied in determining the financial information shown below, are the same as those applied in the consolidated financial statements except as set out below.

INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

Investments in subsidiaries, associates and joint ventures are accounted for at cost. Dividends (if any) received from subsidiaries, associates and joint ventures are recognised in profit or loss when a right to receive the dividend is established (provided that it is probable that the economic benefits will flow to the Parent and the amount of income can be measured reliably).

TAX CONSOLIDATION

The Company and its wholly-owned Australian resident entities are members of a tax-consolidated group under Australian tax law. The Company is the head entity within the tax-consolidated group.

See Note 1 for a summary of the significant accounting policies relating to the consolidated entity. Set out below is the supplementary information about the parent entity.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	PARENT	
	30 JUNE 2021 \$000	30 JUNE 2020 \$000
Loss after income tax	(109,119)	(12,937)
Total comprehensive loss	(109,119)	(12,937)

STATEMENT OF FINANCIAL POSITION

	PARENT	
	30 JUNE 2021 \$000	30 JUNE 2020 \$000
Total current assets	154,108	4
Total non-current assets	2,070,211	284,581
Total assets	2,224,319	284,585
Total current liabilities	(472,483)	(2,625)
Total liabilities	(472,483)	(2,625)
Net assets	1,751,836	281,960
Issued capital	1,668,321	289,643
Reserves	106,084	20,233
Convertible notes – equity	114,466	-
Accumulated losses	(137,035)	(27,916)
Total equity	1,751,836	281,960

GUARANTEES ENTERED INTO BY THE PARENT ENTITY IN RELATION TO THE DEBTS OF ITS SUBSIDIARIES

During the financial year ended 30 June 2020 and financial year 30 June 2021, the parent entity and certain subsidiaries had a deed of cross guarantee in place under which each company guarantees the debts of the others.

By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare financial statements and Directors' Report under Corporations Instrument 2016/785 issued by the Australian Securities and Investments Commission.

The effect of the Deed is that the parent entity guarantees to each creditor payment in full of any debt in the event of winding up of the subsidiaries included in the Deed under certain provisions of the *Corporations Act 2001*.

The subsidiaries detailed in Note 30 are parties to a deed of cross guarantee under which each guarantees the debts of the others. These controlled entities have been relieved of the requirement to prepare a financial report and Directors' Report under ASIC Corporations (Wholly-owned Companies) Instruments 2016/785. These controlled entities and the Company form a closed group. Included in the closed group are receivables on zipMoney Payments Pty Ltd's balance sheet which are transferred to the Trusts (which are not parties to the deed of cross guarantee) but failed derecognition due to zipMoney Payments Pty Ltd retaining substantially all the risks and rewards of ownership.

The effects of transactions between entities to the deed are eliminated in full in the Consolidated Statement of Financial Position and Consolidated Statement of Profit or Loss and Other Comprehensive Income as set out in the following tables.

The parent entity has provided a corporate guarantee to secure the funding facility of the zipMoney 2017-2 Trust as at 30 June 2021 and 30 June 2020.

Notes to the Financial Statements

Continued

The Consolidated Statement of Financial Position of the Closed Group is set out in the following table:

	30 JUNE 2021 \$000	30 JUNE 2020 \$000
Assets		
Cash and cash equivalents	228,373	27,737
Other receivables	6,336	6,507
Customer receivables	1,712,883	1,081,155
Property, plant and equipment	2,952	3,359
Right-of-use assets	5,242	8,160
Intangible assets	13,715	17,040
Investments	1,618,782	106,194
Total Assets	3,588,283	1,250,152
Liabilities		
Trade and other payables	(27,672)	(19,191)
Employee provisions	(4,574)	(2,349)
Lease liabilities	(5,622)	(8,414)
Borrowings	(1,480,784)	(1,049,710)
Financial liabilities – convertible notes and warrants	(469,966)	-
Total Liabilities	(1,988,618)	(1,079,664)
Net Assets	1,599,665	170,488
Equity		
Issued capital	1,668,321	274,151
Reserves	106,139	19,700
Convertible notes – equity	114,466	-
Accumulated losses	(289,261)	(123,363)
Total Equity	1,599,665	170,488

The Consolidated Statement of Profit or Loss and Other Comprehensive Income of the Closed Group is set out in the following table:

	30 JUNE 2021 \$'000	30 JUNE 2020 \$'000
Operating Income	208,562	149,926
Cost of Sales	(135,942)	(99,016)
Gross Profit	72,620	50,910
Other income	231	1,356
Administration expenses	(11,271)	(6,393)
Depreciation expense	(4,383)	(3,920)
Amortisation of intangibles	(10,498)	(5,864)
Information technology expenses	(14,187)	(10,238)
Marketing expenses	(24,851)	(8,419)
Salaries and employee benefits expenses	(54,599)	(37,909)
Share-based payments	(15,306)	(20,393)
Acquisition costs	(9,938)	(10,273)
Other operating costs	(11,667)	(3,768)
Fair Value loss on financial instruments	(82,049)	-
Loss Before Income Tax	(165,898)	(54,911)
Income tax expense	-	-
Loss After Income Tax	(165,898)	(54,911)
Other Comprehensive Income, Net of Tax	-	-
Total Comprehensive Loss	(165,898)	(54,911)

CONTINGENCIES

Other than reported in the Note 25, the parent entity had no contingencies as at 30 June 2021 and 30 June 2020.

CAPITAL COMMITMENTS — PROPERTY, PLANT AND EQUIPMENT

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2021 and 30 June 2020.

Notes to the Financial Statements

Continued

NOTE 30: INTEREST IN SUBSIDIARIES

A. ULTIMATE PARENT

Zip Co Limited is the ultimate parent entity and the parent entity of the consolidated entity from a legal perspective.

B. CORPORATE STRUCTURE

The legal corporate structure of the consolidated entity is set out below:

NAME	PRINCIPAL PLACE OF BUSINESS/ COUNTRY OF INCORPORATION	OWNERSHIP INTEREST	
		30 JUNE 2021 %	30 JUNE 2020 %
Legal parent			
Zip Co Limited ¹	Australia		
Legal subsidiaries			
zipMoney Payments Pty Ltd ¹	Australia	100%	100%
zipMoney Trust 2017-1 ²	Australia	100%	100%
zipMoney Trust 2017-2 ²	Australia	100%	100%
Zip Master Trust ²	Australia	100%	100%
zipMoney Holdings Pty Ltd ¹	Australia	100%	100%
zipMoney Securities Ltd	Australia	100%	100%
Pocketbook Holdings Pty Ltd	Australia	100%	100%
Pocketbook Australia Pty Ltd	Australia	100%	100%
Pocketbook Technologies Pty Ltd	Australia	100%	100%
Zip Domestic Holdings Pty Limited	Australia	100%	100%
Zip International Holdings Pty Limited	Australia	100%	100%
zipMoney Payments (NZ) Limited	New Zealand	100%	100%
Zip Business Australia Pty Ltd (formerly Spotcap Australia Pty Ltd)	Australia	100%	100%
Zip Business New Zealand Pty Ltd (formerly Spotcap New Zealand Ltd)	New Zealand	100%	100%
Funding Box 3 (Australia) Pty Limited	Australia	100%	100%
Funding Box NZ Limited	New Zealand	100%	100%
Zip Co NZ Limited	New Zealand	100%	100%
Zip Co NZ Finance Limited	New Zealand	100%	100%
Zip Co Payments UK Limited	United Kingdom	100%	100%
Zip Co Finance UK Limited	United Kingdom	100%	100%
Zip Global Consulting Pte Ltd	Singapore	100%	100%
Zip UK Holdings LTD	United Kingdom	100%	-
QuadPay Inc.	United States of America	100%	-
QuadPay AR1 LLC	United States of America	100%	-
AR2 Holdco LLC	United States of America	100%	-
AR2 LLC	United States of America	100%	-
QuadPay Canada Holdings Inc	United States of America	100%	-
QuadPay ULC	Canada	100%	-
Zip Co Payments Mexico. S.A.de C.V.	Mexico	100%	-
ZipBiz Trust 2020-1 ²	Australia	100%	-
Urge Holdings Pty Ltd	Australia	100%	-
Urge Technologies Pty Ltd	Australia	100%	-
Schnap Pty Ltd	Australia	100%	-

1. These entities have entered into a deed of cross guarantee, refer to Note 29 for details.

2. Ownership is through zipMoney Payments Pty Ltd, which is both the Participating Unitholder and Residual Unitholder of the zipMoney Trust 2017-1, and the zipMoney Trust 2017-2, the Zip Master Trust and the ZipBiz Trust 2020-1.

NOTE 31: SHARE-BASED PAYMENTS

MOVEMENTS IN SHARE-BASED PAYMENTS RESERVE

DETAILS	30 JUNE 2021 \$'000	30 JUNE 2020 \$'000
Opening balance	19,700	3,520
Recognised for the year		
- At Risk Short-Term Incentive	130,735	12,046
- At Risk Long-Term Incentive	2,463	925
- Fixed Long-Term Equity	3,884	-
- Westpac options	-	221
- Amazon warrants	1,758	7,201
- Recognition of replacement options issued to QuadPay at acquisition	85,292	-
- Recognition of replacement options issued to QuadPay after acquisition	4,003	-
Total recognised for the year	228,135	20,393
Exercised for the year		
- Exercise of share-based payments	(123,267)	(4,213)
- Issue of shares to Zip Employee Share Trust	(8,053)	-
Total exercised for the year	(131,320)	(4,213)
Closing balance	116,515	19,700

EMPLOYEE SHORT-TERM INCENTIVE PLAN

Short-term incentives are granted to employees for their contribution to the performance of the consolidated entity and include annual share awards, sign-on bonuses and project specific incentives. Provision is made during the year for incentives that are to be issued during the year and in subsequent years.

Shares have been issued under the Employee Short-Term Incentive Plan as follows:

- 1,228,395 ordinary shares issued in financial year 2020 with a weighted average share price of \$3.43; and
- 11,636,639 ordinary shares issued in financial year 2021 with a weighted average share price of \$5.56.

Shares issued vest immediately other than those issued to KMP as set out in Remuneration Report.

Shares issued under the Short-Term Incentive Plan are expensed as share-based payments as the obligation is incurred.

Notes to the Financial Statements

Continued

EMPLOYEE LONG-TERM INCENTIVE PLAN

Performance rights include At Risk Long-Term Incentive (LTI) and Fixed Long-Term Equity (LTE), which are subject to the consolidated entity's Remuneration Framework Structure as set out in Remuneration Report.

LTI:

LTIs have been issued under the consolidated entity's Employee Long-Term Incentive Plan as follows:

- 1,872,232 LTIs issued in financial year 2021 to management; and
- 2,750,000 LTIs issued in financial year 2020 to Executive Directors and management.

Details of LTIs outstanding during the year are as follows:

	WEIGHTED AVERAGE FAIR VALUE (\$)	NUMBER OF LTE ISSUED
Balance at the 30 June 2020		3,109,159
Granted during the year	3.48	1,872,202
Lapsed during the year	0.31	(350,000)
Balance at 30 June 2021		4,631,361

The LTIs have a nil exercise price and vest on the achievement of Total Shareholder Return or Transaction Volume hurdles and time based hurdles over the period from the date of grant to the assessment dates. The assessment dates are up to 3, 4, and 5 years from the date of grant.

LTIs granted were valued by an independent valuation using a custom-built Monte Carlo model which simulates multiple paths for the share price over the duration of the grant's life. The pay out of the rights is then calculated along each simulated path based on the realised performance of the share price along that path and discounted to the valuation date. The value of the rights is then averaged across all the simulations to obtain the fair value of the rights. This process is repeated for each volatility scenario. These benefits are amortised as share-based payments over the vesting period.

LTE:

LTEs issued provide Zip with the best opportunity to retain senior leaders and attract high quality talent. LTEs were issued with equal vesting over 4 years (25% per year). LTE is not subject to any performance hurdles and only requires the employees to remain employed for the rights to vest.

Details of LTEs outstanding during the year are as follows:

	WEIGHTED AVERAGE FAIR VALUE (\$)	NUMBER OF LTE ISSUED
Balance at the 30 June 2020		-
Granted during the year	7.82	2,193,067
Lapsed during the year	8.43	(41,609)
Vested during the year	7.28	(5,800)
Balance at 30 June 2021		2,145,658

All granted LTEs were priced using a Black Scholes pricing model, with the key inputs being the grant date share price, expected volatility of 50%, expected life of 4 years, risk free rate of 0.07%, and expected dividend yield of nil.

SHARE OPTIONS

SHARE OPTIONS ISSUED ON ACQUISITION OF QUADPAY

The options issued during the financial year 2021 were the replacement awards issued to employees and other option holders of QuadPay on the acquisition of QuadPay. The outstanding share options in QuadPay were replaced by options in Zip at 31 August 2020 on the acquisition of QuadPay. There were 10,480,369 replacement options issued to employees and non-employees. No amounts were paid or payable by the recipient on receipt of the option. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

Each option expires on the earlier of:

- The expiry dates of the options which varies between 28 May 2028 and 28 May 2030; and
- The date on which the options otherwise lapses in accordance with the terms of the Award Agreement between the Company and the relevant QuadPay option holder, and the terms of the QuadPay option Plan.

Details of Employee Share Options outstanding during the year are as follows:

	WEIGHTED AVERAGE EXERCISE PRICE (\$)	NUMBER OF OPTIONS
Balance at the 30 June 2020		-
Granted during the year	0.20	10,480,369
Exercised during the year	0.17	(6,617,823)
Balance at 30 June 2021		3,862,546

Replacement options were valued at \$85.3 million at 31 August 2020 by using a Black Scholes pricing model, with the key inputs being the grant dates share price of \$9.16, weighted average exercised price of \$0.20, expected volatility of 50%, expected life of 8 to 10 years, risk free rate of 0.07%, and expected dividend yield of nil. In determining the expected prospective volatility, an observed 4 years historical volatility of share prices was considered, based on the share prices of a range of comparable companies in the industry which Zip operates, as well as that of Zip.

For options exercised during the financial year ended 30 June 2021, the weighted average Zip share price at the dates of exercise was \$6.51.

There were no employee share option plans in place on acquisition of the subsidiaries by the consolidated entity in the financial year ended 30 June 2020.

WESTPAC OPTIONS

During the financial year ended 30 June 2021, no expense was recognised in relation to the Westpac options. (FY20: 0.2 million).

AMAZON WARRANTS

During the financial year ended 30 June 2021, an expense of \$1.7 million was recognised in relation to the Amazon warrants as detailed in Note 4 (FY20: 7.2 million).

Notes to the Financial Statements

Continued

NOTE 32: SUBSEQUENT EVENTS

Subsequent to the year end, the consolidated entity announced its intention to acquire the remaining 73.75% interest in Payflex that Zip does not already own, comprising the Upfront Consideration, BEE Holdback Amount and Deferred Consideration. The implied maximum enterprise value is ZAR \$250 million (circa \$22.9 million).

The Upfront Consideration of ZAR \$103.4 million (circa \$9.5 million) is payable in new fully paid ordinary shares in Zip, subject to a maximum issuance of 1,477,686 shares, Zip's shares issued in settlement of the Upfront Consideration will be subject to voluntary escrow arrangements.

In addition, Zip has agreed to make a potential cash payment of up to a maximum of ZAR \$7.2 million (circa \$0.7 million), which Zip has agreed to pay generally within 12 months from completion, subject to certain agreed conditions being met in connection with Zip exploring the merit of "empowering" Payflex in accordance with South African legislation, policy and good corporate governance practice regarding 'black economic empowerment' investment.

Deferred Consideration of up to ZAR \$73.8 million (circa \$6.8 million) is payable subject to satisfaction of prescribed performance milestones, which are based on growth targets relating to the achievement of total transaction values and net transaction margins for the 12-month 'performance period' ending 30 June 2022. Deferred Consideration is payable by the issue of up to 1,053,608 Zip shares. Zip shares issued in settlement of the Deferred Consideration will be subject to voluntary escrow arrangements. Payflex's founder and CEO will be eligible to earn an additional Performance Incentive, subject to satisfaction of prescribed performance milestones relating to the achievement of targets for total transaction values and net transaction margins, and also dependent on continued employment at the date of satisfaction of the relevant performance milestones (other than in certain prescribed 'good leaver' circumstances).

The acquisition is subject to customary conditions, including South African Reserve Bank (SARB) approval and the completion is anticipated to occur during the quarter ending 31 March 2022. The financial effects of this transaction have not been recognised at 30 June 2021.

Zip successfully completed the fourth rated note issuance within the Zip Master Trust on 10 September 2021, being the Zip Master Trust Series 2021-2, raising \$650 million from debt investors. Of the total raised, \$500 million was used to repay the investors in the Zip Master Trust Series 2019-1 on maturity.

On 22 September 2021, Zip agreed a strategic minority investment in ZestMoney, a leading Indian BNPL operator. Zip will invest US\$50.0m (\$67.7m) to subscribe for Series C Preference Shares in ZestMoney, and has also negotiated favoured terms to increase its holdings over time, specific reserved matters and a board seat as part of the investment.

To the date of the release of this report, there have been no other material items, transactions or events subsequent to 30 June 2021 which relate to conditions existing at that date and which require comment or adjustment to the figures dealt with in this report.

Directors' Declaration

The Directors declare that in the Directors' opinion:

- There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;
- The attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in Note 1 to the financial statements;
- The attached financial statements and notes comply with the *Corporations Act 2001*, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- The attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 30 June 2020 and of its performance for the financial year ended on that date; and
- The Directors have been given the declarations required by section 295A of the *Corporations Act 2001*.

At the date of this declaration, the Company is within the class of companies affected by ASIC Corporations (Wholly owned Companies) Instrument 2016/785. The nature of the deed of cross guarantee is such that each company which is party to the deed guarantees to each creditor payment in full of any debt in accordance with the deed of cross guarantee.

In the Directors' opinion, there are reasonable grounds to believe that the Company and the companies to which ASIC Corporations (Wholly owned Companies) Instrument 2016/785 applies, as detailed in Note 29 to the financial statements will, as a group, be able to meet any liabilities to which they are, or may become, subject because of the deed of cross guarantee.

Signed in accordance with a resolution of Directors made pursuant to section 295(5)(a) of the *Corporations Act 2001*.

On behalf of the Directors,



Larry Diamond
Managing Director & Chief Executive Officer

29 September 2021

Independent Auditor's Report to the Members

Deloitte.

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Independent Auditor's Report to the Members of Zip Co Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Zip Co Limited (the "Company") and its subsidiaries (the "Group") which comprises the consolidated statement of financial position as at 30 June 2021, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the Group's financial position as at 30 June 2021 and of its financial performance for the year then ended; and
- complying with Australian Standards and the *Corporations Regulation 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Key Audit Matters	How the scope of our audit responded to the Key Audit Matters
<p>Acquisition accounting</p> <p>The Group completed two acquisitions during the current financial year which were accounted for in accordance with AASB 3 <i>Business Combinations</i>:</p> <ul style="list-style-type: none"> • QuadPay was acquired on 31 August 2020, for \$1,174.4m, comprising cash, shares and replacement options; and • Urge was acquired on 26 October 2020 for \$2.8m of Zip shares. <p>Management engaged an external valuation expert to complete the purchase price allocation of the assets acquired and liabilities assumed on acquisition.</p> <p>For the QuadPay acquisition, significant estimation was used, particularly in respect of the valuation of acquired intangible assets, such as brands, technology and exclusive contracts. The residual balance of \$734.8m, net of \$306.2m acquisition fair value adjustments, was allocated to goodwill, as disclosed in Note 17.</p>	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Assessing management’s key assumptions in determining the appropriate business combination treatment and the acquisition date of control in accordance with the relevant accounting standard; • Assessing management’s recognition and measurement criteria in recording the purchase price, the fair value of identified assets and liabilities as part of the acquisition, and the residual allocation of goodwill; • Engaging our financial reporting specialists to review management’s position paper in assessing the acquisition date and goodwill allocation; • Inspecting the acquisition date balances of cash, loans, borrowings and other material balance sheet items of QuadPay and Urge back to signed agreements and bank statements; • Evaluating the external valuation reports used by management in relation to the fair values of acquired assets and liabilities of QuadPay and Urge; • Assessing the competence and capabilities of management’s valuation expert; • In conjunction with our valuation specialists, assessing management’s final fair value adjustments to identified and acquired intangible assets, especially the reasonableness of forecasts, growth rates and discount rates used; • Assessing the appropriateness of the QuadPay acquisition fair value adjustments; • Assessing the allocation of replacement option value between QuadPay acquisition consideration and post-acquisition share based payments expense; • Evaluating the reasonableness that the fair value determined by management was appropriate; and • Assessing alignment of QuadPay’s and the Group’s accounting policies. <p>We have also assessed the appropriateness of the disclosures in Note 1 E., 1 H., 7, 16 and 17 to the financial statements.</p>

Independent Auditor's Report to the Members

Continued

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Key Audit Matters	How the scope of our audit responded to the Key Audit Matters
<p>Effective interest rate</p> <p>Revenue recognition is calculated using the effective interest rate ('EIR') method under AASB 9 <i>Financial Instruments</i> ('AASB 9'). When calculating the effective interest rate, the Group estimates the expected cash flows by considering all the contractual terms of the loan receivables excluding the expected credit losses.</p> <p>As at 30 June 2021, Portfolio Income of \$347.4m was reported as disclosed in the financial statements. Portfolio Income contains merchant fees, establishment fees, monthly fees and interest as disclosed in Note 1 E.</p> <p>The effective interest rate method is based on a management revenue recognition model with a number of key estimates and assumptions including:</p> <ul style="list-style-type: none"> • estimated future cash flows; and • the period over which historical repayment patterns are assessed. 	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Obtaining an understanding of revenue streams, products and offerings, including those of QuadPay, which was acquired during the year; • Assessing the accounting policies adopted by management in respect of revenue and assessing they are in accordance with the relevant accounting standards; • Assessing the relevant internal controls over the capture, measurement and reporting of revenue transactions; • Assessing the appropriateness of key assumptions used in the revenue recognition model, including the estimated future cash flows and the expected life of the customer receivables balance; • Agreeing a sample of transactions to underlying signed loan, merchant agreements and bank statements; • Assessing the appropriateness of any unearned future income adjustments made by management in accordance with the relevant accounting standards; and • Recalculating the principal components of portfolio income under the effective interest rate method. <p>We have also assessed the appropriateness of the disclosures in Note 1 E. and 1 N. to the financial statements.</p>

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Key Audit Matters	How the scope of our audit responded to the Key Audit Matters
<p>Expected credit loss provisioning</p> <p>As at 30 June 2021, the carrying value of Customer Receivables recorded was \$1,988.0m, which includes a provision for expected credit loss (ECL) of \$106.4m as disclosed in Note 12.</p> <p>Models to measure the ‘expected credit losses’ involve significant judgements and assumptions made by management including;</p> <ul style="list-style-type: none"> • Criteria for identifying a significant increase in credit risk; • Parameters of the models in relation to probability of default, loss given default, behavioural life and exposure at default; • Determining the most appropriate information and datasets to be used as inputs; and • Forward looking economic scenarios that consider the impact on expected credit losses of potential macro-economic events, including the impact of COVID-19. 	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Obtaining an understanding of credit judgments made by management in the ECL models; • Testing the key controls relating to the customer loan approval processes and identification of overdue amounts; • Agreeing a sample of data used as inputs to the ECL models to relevant source documentation and historical loan portfolio performance records; • Testing the data inputs in calculating the probability of default roll rates to assess reasonableness; • Assessing the reasonableness of management’s key assumptions and recent historical recovery data used in determining loss given default and lifetime expected loss period; • Assessing the provisioning methodology with reference to relevant accounting standards and market practices; • Testing model calculations through re-performance; and • Challenging management’s judgements in respect to the macroeconomic factors and judgemental overlays in response to the current macroeconomic environment. <p>We have also assessed the appropriateness of the disclosures in Note 1 E., 1 N., 12 and 24 to the financial statements.</p>

Independent Auditor's Report to the Members

Continued

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Key Audit Matters	How the scope of our audit responded to the Key Audit Matters
<p>Goodwill impairment</p> <p>As a result of the acquisitions, the Group's recognised goodwill was assessed by management for impairment. Goodwill acquired in a business combination was allocated to each of the Group's cash-generating units (CGUs) that are expected to benefit from the synergies of the combination and represents the lowest level within the Group at which the goodwill is monitored for internal management purposes as disclosed in Note 17.</p> <p>Management's impairment assessment of the carrying value of goodwill and intangible assets was based on key assumptions; particularly forecast total transaction volume growth, terminal growth rates and discount rates. Management identified multiple CGUs – Zip (AU), Zip NZ & UK, Zip US and Zip Business.</p> <p>Goodwill impairment is a significant area of judgement and the impairment models are dependent upon the key assumptions used, including:</p> <ul style="list-style-type: none"> • Forecast total transaction volume growth; • The discount rate; and • The terminal growth rate. 	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Obtaining an understanding over any changes to the internal and external impairment indicators (such as the impact of COVID-19 on cash flow forecasts, market capitalisation) in assessing goodwill impairment through inquiries with management and external market evidence; • Assessing management's position paper and board minutes to identify the CGU to which goodwill has been allocated and ensured that CGU is not allocated at a higher level than its operating segment; • Evaluating consistency of management's projections, historical track record and external market evidence; • Assessing the reasonableness of key assumptions used in the model prepared by management such as the forecasted transaction volumes, terminal growth rates and discount rates; and • In conjunction with our valuation specialists, we tested the model integrity, calculations and reasonableness of management assumptions used. <p>We have also assessed the appropriateness of the disclosures in Note 1 K. and 17 to the financial statements.</p>
<p>IT systems</p> <p>The Group's financial reporting processes are reliant on automated processes, controls and data managed by IT systems.</p> <p>The integrity of the financial reporting process and underlying IT systems form a key component of our audit.</p>	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Determining, through discussions with management, the IT systems that were integral to the financial reporting process and inclusion of the relevant systems in the scope of our audit; • Understanding business process controls; and • Assessing the design and operating effectiveness of any controls that mitigated identified risks. <p>In respect of IT identified control matters, we performed a combination of additional controls and extended substantive procedures (as required).</p>

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Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2021, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion.

Independent Auditor's Report to the Members

Continued

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Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 59 to 77 of the Directors' report for the year ended 30 June 2021.

In our opinion, the Remuneration Report of Zip Co Limited for the year ended 30 June 2021 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Deloitte. Touche. Tohmatsu.

DELOITTE TOUCHE TOHMATSU



Mark Lumsden

Partner

Chartered Accountants

Sydney, 29 September 2021

Shareholder Information

The shareholder information set out below was applicable as at 31 August 2021.

DISTRIBUTION OF EQUITABLE SECURITIES

Analysis of number of equitable security holders by size of holding

RANGE	NUMBER OF HOLDERS OF ORDINARY SHARES	NUMBER OF UNLISTED PERFORMANCE SHARES	NUMBER OF HOLDERS OF UNLISTED WARRANTS EXP 06.11.2026
1 to 1,000	95,243	-	-
1,001 to 5,000	29,080	-	-
5,001 to 10,000	5,467	-	-
10,001 to 100,000	4,080	-	-
100,001 and over	252	-	1
Total	134,122	-	1
Holding less than a marketable parcel	11,652	-	-

RANGE	NUMBER OF HOLDERS OF UNLISTED WARRANTS EXP 01.09.2023	CONVERTIBLE NOTES	NUMBER OF HOLDERS OF UNQUOTED OPTIONS VESTING 10.08.2022
1 to 1,000	-	1	-
100,001 and over	1	-	1
Total	1	1	1
Holding less than a marketable parcel	-	-	-

RANGE	NUMBER OF HOLDERS OF UNQUOTED PERFORMANCE RIGHTS, VESTING 15.02.2022	NUMBER OF HOLDERS OF UNQUOTED PERFORMANCE RIGHTS, VESTING 15.02.2023	NUMBER OF HOLDERS OF UNQUOTED PERFORMANCE RIGHTS, VESTING 15.02.2024
100,001 and over	2	2	2
Total	2	2	2
Holding less than a marketable parcel	-	-	-

Shareholder Information

Continued

RANGE	NUMBER OF HOLDERS OF UNQUOTED PERFORMANCE RIGHTS, VESTING 15.09.2021	NUMBER OF HOLDERS OF UNQUOTED PERFORMANCE RIGHTS, VESTING 15.09.2022	NUMBER OF HOLDERS OF UNQUOTED PERFORMANCE RIGHTS, VESTING 15.09.2023
100,001 and over	3	3	3
Total	3	3	3
Holding less than a marketable parcel	-	-	-

RANGE	NUMBER OF HOLDERS OF UNQUOTED PERFORMANCE RIGHTS, VESTING 15.09.2023	NUMBER OF HOLDERS OF UNQUOTED PERFORMANCE RIGHTS, VESTING 15.09.2024	NUMBER OF HOLDERS OF UNQUOTED PERFORMANCE RIGHTS, VESTING RANGE 15.09.2025
10,001 to 100,000	7	7	7
Total	7	7	7
Holding less than a marketable parcel	-	-	-

RANGE	NUMBER OF HOLDERS OF UNQUOTED PERFORMANCE RIGHTS, VESTING 15.09.2022	NUMBER OF HOLDERS OF UNQUOTED PERFORMANCE RIGHTS, VESTING 15.09.2023	NUMBER OF HOLDERS OF UNQUOTED PERFORMANCE RIGHTS, VESTING 15.09.2024
10,001 to 100,000	4	2	2
Total	4	2	2
Holding less than a marketable parcel	-	-	-

RANGE	NUMBER OF HOLDERS OF UNQUOTED PERFORMANCE RIGHTS, VESTING 07.06.2022	NUMBER OF HOLDERS OF UNQUOTED PERFORMANCE RIGHTS, VESTING 07.06.2023	NUMBER OF HOLDERS OF UNQUOTED PERFORMANCE RIGHTS, VESTING 07.06.2024
100,000 and over	1	1	1
Total	1	1	1
Holding less than a marketable parcel	-	-	-

RANGE	NUMBER OF HOLDERS OF UNQUOTED PERFORMANCE RIGHTS, VESTING 09.06.2022	NUMBER OF HOLDERS OF UNQUOTED PERFORMANCE RIGHTS, VESTING 09.06.2023	NUMBER OF HOLDERS OF UNQUOTED PERFORMANCE RIGHTS, VESTING 09.06.2024
10,001 to 100,000	1	1	1
Total	1	1	1
Holding less than a marketable parcel	-	-	-

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RANGE	QUADPAY EMPLOYEE OPTIONS	NUMBER OF HOLDERS OF UNQUOTED PERFORMANCE RIGHTS VESTING 14.09.23	NUMBER OF HOLDERS OF UNQUOTED PERFORMANCE RIGHTS VESTING BETWEEN 31.08.21 – 07.06.25
1,001 to 5,000	-	-	111
5,001 to 10,000	6	-	149
10,001 to 100,000	51	4	67
100,001 and over	10	-	1
Total	67	4	328
Holding less than a marketable parcel	-	-	-

EQUITY SECURITY HOLDERS

TWENTY LARGEST QUOTED EQUITY SECURITY HOLDERS

The names of the twenty largest security holders of quoted equity securities are listed below:

	ORDINARY SHARES	
	NUMBER HELD	% OF TOTAL SHARES ISSUED
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	39,844,609	7.09
DIAMOND VENTURE HOLDINGS PTY LTD <DIAMOND FT A/C>	39,448,015 ¹	7.02
CITICORP NOMINEES PTY LIMITED	22,477,148	4.00
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	21,590,498	3.84
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED – A/C 2	18,125,863	3.22
AJE COMPANY PTY LTD <AJE INVESTMENT A/C>	15,844,037	2.82
MR PETER JOHN GRAY	15,211,776	2.71
BLEEKER STREET NOMINEES PTY LTD <BLEEKER STREET A/C>	10,430,273	1.86
MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED <SEG A/C>	8,372,458	1.49
UBS NOMINEES PTY LTD	7,879,776	1.40
NATIONAL NOMINEES LIMITED	7,619,721	1.36
MR ADAM MARC FINGER	5,403,147	0.96
BLEEKER STREET NOMINEES PTY LIMITED <BLEEKER STREET A/C>	4,676,542	0.83
BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	4,567,519	0.81
ACN 163 625 198 PTY LTD <SR-71 A/C>	3,977,382	0.71
SIRIUS ENTERPRISES PTY LTD <SIRIUS A/C>	3,811,782	0.68
ADAM JORDAN EZRA	3,792,405	0.67
BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	3,186,637	0.57
MR BRAD MARC LINDENBERG	3,035,604	0.54
ROCKET INTERNET CAPITAL PARTNERS SCS <RICP SCS A/C>	2,954,596	0.53
Total	242,249,788	43.09

1. Holding has been reduced by 15 million ordinary shares due to the stock lending agreement with Merrill Lynch International as announced to the market on 14 April 2021.

Shareholder Information

Continued

UNQUOTED EQUITY SECURITIES

	NUMBER ON ISSUE	NUMBER OF HOLDERS
Unlisted Warrants, Expiry 06.11.2026	10,961,250	1
Unlisted Warrants, Expiry 06.11.2026	3,653,750	1
Unlisted Warrants, Expiry 01.09.2023	19,365,208	1
Unlisted Performance Options Various Exp	5,880,000	1
Convertible Notes, face value \$100,000	1,000	1
QuadPay Employee options	3,862,546	67
Unlisted Performance Rights Vesting 15.02.2022	406,666	2
Unlisted Performance Rights Vesting 15.02.2023	406,666	2
Unlisted Performance Rights Vesting 15.02.2024	406,668	2
Unlisted Performance Rights Vesting 15.09.2021	393,333	3
Unlisted Performance Rights Vesting 15.02.2022	393,334	3
Unlisted Performance Rights Vesting 15.09.2023	393,333	3
Unlisted Performance Rights Vesting 15.09.2022	146,830	4
Unlisted Performance Rights Vesting 15.09.2023	106,165	2
Unlisted Performance Rights Vesting 15.09.2024	106,164	2
Unlisted Performance Rights Vesting 15.09.2023	388,164	7
Unlisted Performance Rights Vesting 15.09.2024	388,162	7
Unlisted Performance Rights Vesting 15.09.2025	388,160	7
Unlisted Performance Rights Vesting 14.09.2023	102,487	4
Unlisted Performance Rights Various Vesting between 31.08.2021 – 07.06.2025	2,924,464	328
Unlisted Performance Rights Vesting 07.06.2022	110,000	1
Unlisted Performance Rights Vesting 07.06.2023	110,000	1
Unlisted Performance Rights Vesting 07.06.2024	110,000	1
Unlisted Performance Rights Vesting 09.06.2022	91,743	1
Unlisted Performance Rights Vesting 09.06.2023	91,743	1
Unlisted Performance Rights Vesting 09.06.2024	91,743	1

The following persons holds 20% or more of unquoted equity securities:

NAME	CLASS	NUMBER HELD
AMAZON.COM NV INVESTMENT HOLDINGS LLC	Unlisted Warrants Expiry 6.11.2026	14,615,000
WESTPAC BANKING CORPORATION	Unlisted Performance Options Vesting 10 August 2022	5,880,000
CVI INVESTMENTS, INC	Unlisted Warrants Expiry 1.09.2023	19,365,208
CVI INVESTMENTS, INC	Convertible Notes, Face Value \$100,000	1,000

Note the issuance of 2,000 convertible notes on 23 April is listed on Singapore Exchange (SGX).

SUBSTANTIAL HOLDERS

Substantial holders in the Company are set out below based on the shares disclosed as held from the last Form 604 lodged by the shareholder:

	ORDINARY SHARES	
	NUMBER HELD	PERCENTAGE %
MR LARRY DIAMOND, MR LARRY DIAMOND + MRS ASHLYN DIAMOND DIAMOND VENTURE HOLDINGS PTY LTD <DIAMOND UNIT A/C>	54,528,597	9.70%
BANK OF AMERICA CORPORATION	41,897,694	7.45%

VOTING RIGHTS

Voting rights are as set out below:

ORDINARY SHARES:

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

OPTIONS:

All quoted and unquoted options do not carry any voting rights.

ASX LISTING RULE 4.10.3

The corporate governance statement that meets the requirements of this rule is located on the Company's website <https://zip.co/investors/about/corporate-governance>

Corporate Directory

DIRECTORS

Diane Smith-Gander AO (Chair)
Larry Diamond (Managing Director & CEO)
Peter Gray (Executive Director & Global COO)
John Batistich (Non-Executive Director)
Pippa Downes (Non-Executive Director)

COMPANY SECRETARY

David Franks
Tai Phan

REGISTERED OFFICE

Level 5, 126 Phillip Street
Sydney NSW 2000
Website: www.zipmoneylimited.com.au

SECURITIES EXCHANGE LISTING

ASX Code: Z1P

AUDITORS

Deloitte Touche Tohmatsu
Grosvenor Place
225 George Street
Sydney NSW 2000

SOLICITORS

Arnold Bloch Liebler
Level 24, 2 Chifley Square
Sydney NSW 2000

SHARE REGISTRY

Computershare Investor Services Pty Limited
Level 11, 172 St Georges Terrace
Perth WA 6000

INVESTOR ENQUIRIES

investors@zip.co

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